



INSIDE VIEW OF OUR COMPANY

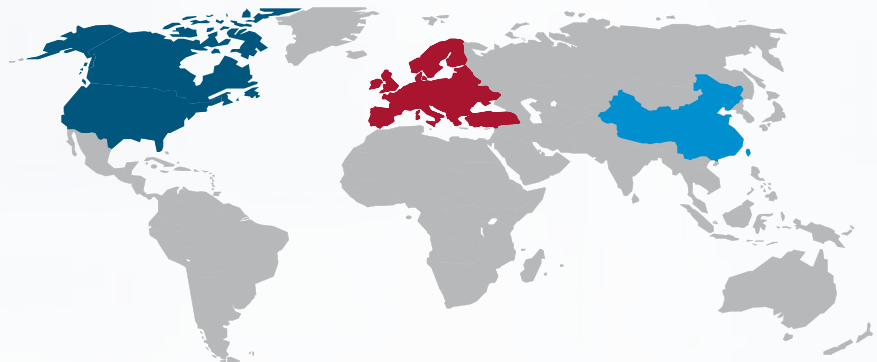
ANNUAL REPORT 2008

 **SAVARIA**

HIGHLIGHTS

| | |
|------|---|
| 1979 | Founding of the Corporation |
| 1989 | Acquisition by Marcel Bourassa Five employees \$200,000 in sales |
| 1991 | Arrival of Robert Berthiaume Development of U.S. distribution network |
| 1994 | Launch of Telecab elevator |
| 1995 | Launch of ES-125 inclined platform lift |
| 1996 | 100 retailers \$3 million in sales |
| 1997 | Launch of B.07 stairlift Plant floor space: from 12,500 to 25,000 sq.ft. |
| 1998 | Launch of Multilift vertical platform lift Plant floor space: from 25,000 to 31,000 sq.ft. |
| 1999 | 200 retailers \$7.8 million in sales |
| 2001 | Launch of Stairfriend curved staircase lift Plant floor space: from 31,000 to 41,000 sq.ft. |
| 2002 | Launch of Step-Saver stairlift Listing on the TSX Venture Exchange Start-up of procurement by Chinese suppliers |
| 2003 | Transfer to Toronto Stock Exchange \$5 million private placement New headquarters in Laval, Quebec Plant floor space: from 41,000 to 70,000 sq.ft. \$17.6 million in sales |
| 2004 | Launch of Ultimo elevator for residential use 300 retailers \$22.1 million in sales |
| 2005 | Acquisition of Concord Elevator Inc. Purchase of Van-Action Inc.'s assets \$5.6 million private placement 600 retailers \$39.3 million in sales |
| 2006 | Integration of Concord and Van-Action Discontinuance of direct sales outside Montreal New dividend policy \$59.2 million in sales |
| 2007 | Transfer of Laval manufacturing operations to plants in Ontario and China Launch of Eclipse residential elevator \$57.5 million in sales |
| 2008 | Distribution agreement with Vimec and Merits Sale of the Laval Building Development of the Chinese plant: 50 employees \$54.7 million in sales |

OUR
INTERNATIONAL
REACH IS
EXPANDING



MESSAGE FROM THE CHAIRMAN

It is with renewed pleasure that I take this opportunity to report on our Corporation's recent developments and its achievements over the past year. Despite the economic turmoil and the real estate and financial crisis in the United States, we achieved a more than satisfactory performance.



CONQUERING THE GLOBAL MARKET

While retaining its position as the second largest company in the accessibility industry in North America, Savaria continues to be the only manufacturer worldwide to offer as full a range of accessibility products for people with reduced mobility.

Our strategy remains unchanged: to be present as a manufacturer and distributor in major regions worldwide. In North America, more than 600 retailers oversee the distribution of our products.

In China, through our subsidiary Savaria Huizhou, we have manufactured components for our subsidiaries for two years. I would like to point out that we intend to start selling to this market in 2009 and we expect this subsidiary's operations to become increasingly important in upcoming years. We have a highly strategic location not far from Hong Kong, Canton and Shanghai in this huge potential market, being present in the very heart of the Chinese Golden Triangle, which has the highest average per-capita income in the country.

Our overriding objective is to ensure our shareholders benefit from an attractive return on their investment.

2008 OVERVIEW

In the first quarter of fiscal 2008, we closed the sale of our Laval building and thereby realized a gain of \$2 million. We also finished integrating the operations transferred to Toronto and this consolidation provided us with greater operational efficiency and significant cost savings.

2008 was a difficult year for our industry. Because of the global economic downturn, we had to review all our operations in order to maintain our profitability. Our efforts to bring certain new products to market failed to yield the expected benefits in 2008. However, we should see a positive impact on our results as of the third quarter of 2009.

Conversely, the Eclipse residential elevator, which was put into production in January 2008, has been an absolute success with over 400 units installed throughout North America in 2008.

PROTECTING SHAREHOLDER VALUE

Despite the difficult economic climate, and especially the U.S. housing market slowdown, we successfully protected our shareholders' equity and generated pre-tax earnings of \$3.2 million as well as cash flows from operating activities of close to \$1 million. Since our introduction of the dividend policy in 2005, we have paid a total of 19.2 cents per share in dividends every year. We also declared a dividend of three cents per share in March 2009.

We retain a healthy financial position and a solid balance sheet, which is a major strength in this period of uncertainty. As at December 31, 2008, we had an indebtedness ratio (long-term debt / equity) of 49% and a current ratio of 2.30. Our cash and cash equivalents, net of bank loans, amounted to \$4.5 million, and our unused credit facilities, to \$2.8 million.

In addition, we benefit from a long-term bank financing arrangement of \$6 million that was granted to the Corporation in November 2008. Of this total, \$1.9 million will be used for day-to-day operations, the balance being available for future acquisition projects.

The high value of the Canadian dollar in relation to the U.S. dollar in the first three quarters of 2008 and the further weakening of the real estate market in the United States has prompted us to be more vigilant. By restructuring our assets, we remained profitable and generated substantial cash flows.

CARRYING ON OUR EFFORTS

In 2009, we will carry on our efforts as we can already see that the economic environment will be particularly difficult. Thus, we will control our costs through tighter management of our resources and will optimize our operations while stimulating our productivity.

Furthermore, we plan to improve our support to retailers by providing them with new client prospection tools and pursuing our installer assistance efforts. We will drive our marketing of Van-Action's new TX Plus vehicle, which is equipped with a rear access in addition to a side door.

Finally, we will build upon our worldwide presence and partnerships to benefit from the best quality-price value for our purchasing and to conquer new markets that enjoy strong demand for accessibility products.

MESSAGE OF THANKS

I would like to thank all our employees for their steadfast efforts and support, which are of critical importance in these challenging times. Finally, I wish to assure our shareholders that they can continue to put their trust and confidence in Savaria's directors and that we will do our utmost to ensure we remain worthy of that honour.

In closing, I thank you for your attention and your interest in Savaria.



Marcel Bourassa
Chairman of the Board, President and Chief Executive Officer

MAIN PLANT



The manufacturing of all the Corporation's elevators and vertical platform lifts is carried out at the main plant in Brampton, Ontario. More than 200 employees work in this facility, which houses all the technical support and after-sales services and covers an area of 220,000 square feet.

CHINESE PLANT



Savaria (Huizhou) Mechanical Equipment Manufacturing Co. Ltd does sub-assemblies of accessibility equipment components and finished products for the Corporation's subsidiaries and, shortly, for the sale of products on the Chinese and European markets. With a staff of more than 50 employees, this facility is under the regular supervision of Canadian managers and engineers who oversee the transfer of certain processes and employee skills upgrading. The plant is approved by the Electrical Testing Laboratory, the Canadian Standards Association and the Canadian Welding Bureau. It covers an area of 35,000 square feet.

VIMEC



The agreement signed with our partner Vimec, s.r.l., Italy, will allow Vimec's products to be distributed in North America through Savaria's distribution network as of 2009. These products, more specifically a chair lift and an inclined platform lift for curved staircases, are complementary to those of the Corporation.

VAN-ACTION



Van-Action (2005) converts and adapts automotive vehicles, primarily lowered-floor mini-vans for people with mobility problems. Located in Ville St-Laurent (Quebec), it operates a 70,000-square-foot plant and its products are aimed at individual as well as commercial customers. In January 2009, it finalized tests for the launch of a new vehicle with a rear entry in addition to a side entry. This vehicle, unique in North America, will be offered to the adapted taxi industry.

CORPORATE INFORMATION

Directors

Marcel Bourassa, B.A.A.

Chairman of the Board, President,
Chief Executive Officer and Secretary
Savaria Corporation

Normand Balthazard*

Director and Chairman of
the Audit Committee

Jean-Marie Bourassa, C.A.

Director and Chief Financial Officer
Savaria Corporation

Jean-Louis Chapdelaine

Director

Robert Berthiaume, ENG.

Director and Vice-President,
Research and Development
Savaria Concord Lifts Inc.

Peter Drutz*

Director

* Members of the Audit Committee

Head office

Savaria Corporation

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Laval, Quebec, Canada H7R 0A3
Telephone: 450 681-5655
Toll-Free: 1-800 931-5655
Fax: 450 624-1349
Email: savaria@savaria.com

Savaria Concord lifts inc.

107 Alfred Kuehne Boulevard
Brampton, Ontario, Canada L6T 4K3
Telephone: 905 791-5555
Toll-Free: 1-800 661-5112

Van-Action (2005) inc.

4870 Courval Street
Saint-Laurent, Quebec, Canada H4T 1L1
Telephone: (514) 342-5000
Toll-Free: 1-800 668-8705

The Annual and Special Meeting of Shareholders will be held at 11:00 a.m. on Thursday, May 21, 2009, in the Crescent Room of Hotel Le Crystal, located at 1100 de la Montagne Street, Montreal, Quebec.

Management

Savaria Corporation

Marcel Bourassa, B.A.A.
Chairman of the Board,
President and Chief Executive Officer

Hélène Bernier, C.A.

Vice-President Finance

Savaria Concord lifts inc.

Bill Richardson
Executive Vice-President

Van-action (2005) inc.

Pierre Tiernan
President

Banker

National Bank of Canada

Auditors

PricewaterhouseCoopers LLP

Legal counsel

Lévesque Gravel & Associates

McLeod & Co.

Blake Cassels and Graydon LLP

Transfer agent and registrar

Computershare Trust

Company of Canada

Stock information

The shares of Savaria Corporation are listed on the TSX under the ticker symbol SIS. Shareholders wishing to obtain a copy of the Annual Information Form, or any other corporate documents, are invited to write, fax or email their request to the Corporation's head office.

Customer inquiries

To find the Savaria retailer nearest your home, please consult the Corporation's website at www.savariaconcord.com.



INSIDE VIEW OF OUR COMPANY

**MANAGEMENT'S REPORT
CONSOLIDATED FINANCIAL STATEMENTS**

ais SAVARIA



SAVARIA CORPORATION

Management's Report

For the Three and Twelve-Month Periods Ended December 31, 2008

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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, 2008 in comparison with those for the corresponding periods of fiscal 2007. It also provides a comparison of the balance sheets as at December 31, 2008 and 2007. 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 interim 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 Corporation's Audit Committee and approved by its Board of Directors.

This management's report was prepared as of March 24, 2009. 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. Savaria disclaims any intention or obligation to update or revise any forward-looking statements in order to account for any new information or any other event. 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 and cash and cash equivalents per share 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 number of common shares outstanding. A reconciliation between net earnings 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 and cash equivalents per share correspond to the result of cash and cash equivalents divided by the number of shares outstanding.

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: *Elevators and 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 automotive vehicles, primarily lowered-floor mini-vans, also for people with mobility problems. Annualized revenues in the *Elevators and Accessibility* segment total approximately \$46 M, whereas those in the *Adapted Transportation* segment amount to \$9 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 is an entity that was held by a related party and whose capital stock was transferred to the name of the Corporation during the third quarter. The Corporation included this entity in its scope of consolidation as a variable interest entity ("VIE") as of December 31, 2007 and has consolidated it as a subsidiary since August 22, 2008. This entity assembles accessibility equipment components and finished products for the benefit of the Corporation's subsidiaries, and shortly, for the sale of products on the Chinese and European market.

During fiscal 2008, Savaria's revenues were recorded in the United States (54%), Canada (40%) and, to a lesser extent, outside North America (6%). The Corporation has some 370 employees and its shares are listed on Toronto Stock Exchange under the ticker symbol SIS.

5. Business Context

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, as shown in the table below.

| In millions | <u>2002</u> | <u>2007</u> | <u>2012</u> | <u>2030</u> |
|---|-------------|-------------|-------------|-------------|
| Population in the U.S. | 288.4 | 304.8 | 321.4 | 364.0 |
| Population aged 65 + | 35.6 | 37.9 | 42.8 | 71.0 |
| Population aged 65 + requiring accessibility equipment | 5.2 | 5.5 | 6.2 | 10.4 |

Sources: *U.S. Census Bureau, Freedonia Group*

Every month, another 800,000 individuals turn 65 worldwide. People aged 65 years of age and over accounted for 12% of North America's population in 2002, and this proportion will reach 20%, or more than 70 million people, by 2030. 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 will suffer from a disability, raising their total to 35.4 million by 2030. The phenomenon is even more acute in Canada, where seniors accounted for 13.1% of the population in 2005, and this proportion will rise to 23.1% by 2030. It is estimated that 14.6% of these people will need accessibility equipment, a percentage that will increase for two reasons: first, average life expectancies are becoming longer and, second, seniors are increasingly wealthy and will therefore have the means to adapt their own homes in order to remain therein for as long as possible.

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 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 North American 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 operations are 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 2008, Savaria took several initiatives to increase its sales and to mitigate the increase in the Canadian dollar. Unfortunately, the process took longer than expected and the actions implemented took time to yield results.

In 2009, the Corporation will carry on the efforts made in 2008 to achieve the expected results. 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:

- marketing the products of the partners with whom the Corporation signed distribution agreements in 2008, more specifically the chair lift and inclined platform lift for curved staircases made by Vimec S.R.L. and the straight stair chair, electric scooters and powered wheelchair made by Merits Health Products Co.;
- increasing productivity and efficiency through tight cost control 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 2008 Highlights

Sales Up Slightly for the Quarter and Down 5% for the Fiscal Year

Sales were up 1.1% in the fourth quarter of 2008 over the corresponding period of 2007.

Sales for the fiscal year ended December 31, 2008 were down by \$2.8 M or 4.9% from the previous year. Of this decrease, \$2.2 M is due to exchange rate fluctuations between fiscal 2007 and 2008; excluding the impact of exchange rate fluctuations, sales were therefore down by \$612,000 or 1.1% from 2007.

Operating Earnings Up by \$593,000 for the Quarter and Down by \$815,000 for the Fiscal Year

Operating earnings amounted to \$334,000 in the fourth quarter of 2008, as opposed to an operating loss of \$259,000 for the corresponding period of 2007. Excluding the negative impact of the exchange rates used in the fourth quarter of 2008 versus the same period of 2007, operating earnings would be \$111,000 higher and would therefore total \$445,000.

Operating earnings totalled \$2.5 M for the twelve-month period ended December 31, 2008, compared with \$1.7 M for the corresponding period of 2007. Excluding the negative impact of exchange rates, operating earnings would be \$2.1 M higher and would therefore total \$4.6 M for fiscal 2008. This \$2.9 M increase is primarily attributable to the \$2 M gain on disposal of the Laval building (see below).

Exchange Gain of \$1.2 M for the Quarter and \$1.8 M for the Fiscal Year

A \$1.2 M exchange gain was recognized in the fourth quarter of 2008. This gain stems from the translation of U.S. dollar denominated monetary balances, due to the 15.38 cent increase in the U.S. dollar/Canadian dollar closing rate between September 30, 2008 and December 31, 2008. In the corresponding quarter of 2007, the Corporation had recorded an exchange gain of approximately \$170,000.

A \$1.8 M exchange gain was recognized for the twelve-month period ended December 31, 2008, as opposed to a \$927,000 loss for the corresponding period of 2007. This gain stems from the translation of U.S. dollar denominated monetary balances, due to the increase in the U.S. dollar/Canadian dollar closing rate, which rose from 0.9913 as at December 31, 2007 to 1.2180 as at December 31, 2008.

Additional Writedown of Asset-Backed Commercial Paper (“ABCP”) of \$1.2 M for the Quarter

Subsequent to the conclusion of the restructuring plan and the evaluation of the fair value of the Corporation's investments in ABCP, an additional writedown of \$1.2 M was recognized in the fourth quarter. A writedown of \$254,000 was recognized in the corresponding period of 2007.

For the twelve-month period ended December 31, 2008, the total writedown of investments in ABCP amounted to \$1.4 M, compared with \$254,000 for the corresponding period of 2007.

Gain on Disposal of Laval Property

After closing its Laval plant, the Corporation put its Laval building up for sale. This sale was concluded in the second quarter of 2008 for a consideration of \$4.9 M, less selling expenses, resulting in a gain on disposal of \$2 M.



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 – Unaudited) | 2008 | 2007 | 2006 |
|--|----------|-----------|----------|
| USD/CAD exchange rate, end of year | 1.218 | 0.9913 | 1.1654 |
| Average effective exchange rate ⁽¹⁾ | 1.0276 | 1.0909 | 1.1319 |
| Sales | \$54,713 | \$57,520 | \$60,298 |
| Gross profit as a % of sales | 23.1% | 23.5% | 26.6% |
| Selling and administrative expenses | \$11,339 | \$10,525 | \$11,462 |
| Selling and administrative expenses as a % of sales | 20.7% | 18.3% | 19.0% |
| Operating earnings | \$2,532 | \$1,717 | \$3,097 |
| As a % of sales | 4.6% | 3.0% | 5.1% |
| EBITDA ⁽²⁾ | \$4,121 | \$1,351 | \$4,857 |
| EBITDA per share | \$0.151 | \$0.048 | \$0.168 |
| Exchange gain (loss) | \$1,792 | \$(927) | \$351 |
| Net earnings (loss) | \$1,549 | \$(324) | \$1,904 |
| Net earnings (loss) per share – basic | \$0.057 | \$(0.011) | \$0.065 |
| Net earnings (loss) per share – diluted | \$0.057 | \$(0.011) | \$0.064 |
| Dividends declared per share | \$0.063 | \$0.082 | \$0.022 |
| Weighted average number of common shares outstanding – diluted | 27,299 | 28,371 | 29,669 |
| Total assets | \$40,683 | \$38,689 | \$40,261 |
| Long-term debt (including current portion) | \$8,776 | \$675 | \$5,265 |
| Total liabilities | \$22,845 | \$16,066 | \$13,924 |
| Shareholders' equity | \$17,839 | \$22,623 | \$26,337 |

⁽¹⁾ Calculated considering foreign exchange contracts used during the year

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

The Corporation's sales have fallen over the past three years for the following main reasons: the discontinuance of direct sales outside the Montreal region in June 2006 and the fluctuations in the Canadian dollar in relation to the U.S. dollar. On a comparable basis, i.e. excluding the discontinued direct sales and using the same exchange rates as in 2006, sales have held steady over the years. More specifically, they rose 3% between 2006 and 2007 and fell 3% in 2008. Sales therefore remained at a comparable level to 2006.

Again on a comparable basis and excluding the gain on disposal of the building, operating earnings decreased by 2.1% as a percentage of sales between 2006 and 2007, and increased by 1.6% in 2008. They were therefore at a slightly lower level than in 2006. The 2007 decline in operating earnings is due, among others, to the write-off of the inventories of two discontinued products and various expenses and inefficiencies resulting from the closure of the Laval plant.

Besides the aforementioned items, the \$2 M gain on disposal of the Laval building in April 2008 contributed to the change in net earnings. In addition, the Corporation recognized a writedown of investments in ABCP, in the amount of \$254,000 in 2007 and \$1.4 M in 2008. In 2007, several other unusual items also contributed to the decrease in net earnings: the loss of a variable interest entity (\$164,000), stock-based compensation expense arising from the issue of a loan to an employee (\$108,000), restructuring costs (\$224,000) and writedown of assets subsequent to the closure of the Laval plant (\$100,000).

The new dividend policy adopted in 2006 allowed the increase in the dividend declared per share in 2007, having gone from 2.2 cents to 8.2 cents.

The cancellation of shares under the normal course issuer bid (911,000 shares in 2007 and 672,000 shares in 2008) accounted for most of the change in the average number of common shares outstanding since 2006.

Whereas total assets were up slightly over 2006, total liabilities increased by \$6.8 M in 2008 over 2007 due to the contracting of a long-term debt of \$6 M.

Shareholders' equity decreased from \$26.3 M as at December 31, 2006 to \$17.9 M as at December 31, 2008, due mainly to the recognition of other comprehensive income related to the fair value of foreign exchange forward contracts; as at December 31, 2008, the effect of this item was to lower shareholders' equity by \$4.1 M.

9. Summary of Quarterly Results

Selected financial information for the last eight quarters is presented in the table below. 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, 2008.

| (in thousands, except per-share amounts, percentages and exchange rates – Unaudited) | 2008 | | | | 2007 | | | |
|--|-----------|----------|----------|-----------|-----------|----------|-----------|----------|
| | Quarter | Quarter | Quarter | Quarter | Quarter | Quarter | Quarter | Quarter |
| | 4 | 3 | 2 | 1 | 4 | 3 | 2 | 1 |
| USD/CAD exchange rate, end of quarter | 1.218 | 1.0642 | 1.0197 | 1.0265 | 0.9913 | 0.9948 | 1.0654 | 1.1546 |
| Average effective exchange rate ⁽¹⁾ | 1.0652 | 1.0289 | 1.0100 | 1.0063 | 1.0072 | 1.0711 | 1.1316 | 1.1542 |
| Sales | \$14,156 | \$14,681 | \$13,866 | \$12,010 | \$14,006 | \$14,527 | \$14,805 | \$14,181 |
| Gross profit as a % of sales | 27.2% | 24.6% | 21.2% | 18.7% | 20.5% | 24.9% | 22.9% | 25.9% |
| Selling and administrative expenses | \$3,321 | \$2,630 | \$2,652 | \$2,737 | \$2,611 | \$2,775 | \$2,462 | \$2,677 |
| Selling and administrative expenses as a % of sales | 23.5% | 17.9% | 19.1% | 22.8% | 18.6% | 19.1% | 16.6% | 18.9% |
| Operating earnings (loss) | \$334 | \$796 | \$2,113 | \$(712) | \$(259) | \$565 | \$662 | \$749 |
| As a % of sales | 2.4% | 5.4% | 15.2% | (5.9)% | (1.8)% | 3.9% | 4.5% | 5.3% |
| EBITDA ⁽²⁾ | \$889 | \$1,357 | \$2,263 | \$(388) | \$(317) | 452 | 276 | 940 |
| EBITDA per share | \$0.032 | \$0.050 | \$0.083 | \$(0.014) | \$(0.011) | \$0.016 | \$0.010 | \$0.033 |
| Exchange gain (loss) | \$1,180 | \$400 | \$(66) | \$277 | \$169 | \$(387) | \$(658) | \$(51) |
| Net earnings (loss) | \$(146) | \$631 | \$1,652 | \$(588) | \$(886) | 13 | \$(90) | 639 |
| Net earnings (loss) per share – basic and diluted | \$(0.005) | \$0.023 | \$0.061 | \$(0.021) | \$(0.032) | - | \$(0.003) | \$0.022 |
| Dividends declared per share | - | - | \$0.063 | - | - | - | - | \$0.082 |
| Weighted average number of common shares outstanding – diluted | 27,262 | 27,298 | 27,297 | 27,484 | 28,076 | 28,438 | 28,702 | 28,773 |

⁽¹⁾ Calculated considering foreign exchange contracts used during the period

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

As shown in the above table, fluctuations in the U.S. dollar in relation to the Canadian dollar had a direct impact on sales and, in turn, on operating earnings and EBITDA. This is reflected primarily by the weaker sales volume between the fourth quarter of 2007 and the second quarter of 2008. That is due to the fact that 57% of inflows are recorded in U.S. dollars, whereas outlays in U.S. dollars represent only 31% of these inflows. In the third quarter of 2008, sales rose to a level comparable to that of the periods preceding the sharp rise in the Canadian dollar. In the fourth quarter of 2008, Savaria sustained the negative effects of the real estate slowdown in the United States, which explains the slight decline in sales despite the increase in the U.S. dollar.

Selling and administrative expenses amounted to an average of approximately \$2.7 M per quarter during the first three quarters of 2008, compared with \$2.6 M in 2007. That is due mainly to the addition of the expenses of the subsidiary Savaria Huizhou; in 2007, this subsidiary's results were included under *Other Revenues and Expenses*, whereas in 2008, they were included item by item in the financial statements.



In the fourth quarter of 2008, they totalled \$3.3 M due mainly to an increase in the allowance for doubtful accounts.

The following section provides a detailed analysis of operating results for the fourth quarter of 2008 with the same quarter of 2007, and of year-to-date results for fiscal 2008 in comparison with the previous year. The detailed analysis of prior quarters is provided in the interim management's reports for fiscal 2008 and 2007, 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)) | 2008 | | | | 2007 | | | |
|--|----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Quarter 4 | Quarter 3 | Quarter 2 | Quarter 1 | Quarter 4 | Quarter 3 | Quarter 2 | Quarter 1 |
| Net earnings (loss) | \$(146) | \$631 | \$1,652 | \$(588) | \$(886) | \$13 | \$(90) | \$639 |
| Plus: | | | | | | | | |
| Interest on long-term debt | \$42 | \$27 | \$31 | \$35 | \$67 | \$72 | \$80 | \$69 |
| Interest expense and banking fees | \$32 | \$44 | \$33 | \$93 | \$70 | \$24 | \$19 | \$48 |
| Income taxes | \$876 | \$486 | \$361 | \$(114) | \$311 | \$134 | \$72 | \$29 |
| Amortization of fixed assets | \$110 | \$73 | \$93 | \$110 | \$133 | \$131 | \$130 | \$129 |
| Amortization of deferred development costs | \$47 | \$70 | \$70 | \$71 | \$22 | \$33 | \$74 | \$71 |
| Amortization of intangible assets | \$38 | \$38 | \$38 | \$38 | \$38 | \$106 | \$61 | \$36 |
| Less: | | | | | | | | |
| Interest income and dividends | \$110 | \$12 | \$15 | \$33 | \$72 | \$61 | \$70 | \$81 |
| EBITDA | \$889 | \$1,357 | \$2,263 | \$(388) | \$(317) | \$452 | \$276 | \$940 |

10. Operating Results

Certain data on results for the fourth quarter (three months) and the fiscal year ended December 31, 2008 (twelve months) are presented in the following tables.



Currency Fluctuations

As stated above, given the greater proportion of U.S. dollar sales than purchases, the Corporation's results are exposed to fluctuations in the U.S. dollar in relation to the Canadian dollar.

The following table summarizes the impact of fluctuations in the Corporation's average exchange rate on the principal earnings statement items for the fourth quarter and the twelve-month period ended December 31, 2008, in comparison with the average exchange rate for the same periods of the previous year. It should be noted that figures do not include the impact of exchange rate fluctuations on the translation of U.S. dollar denominated balance sheet items.

| Favourable (unfavourable) impact of fluctuations in the U.S. dollar <u>including</u> FX contracts <small>(in thousands of dollars)</small> | 3 Months | 12 Months |
|---|----------|-----------|
| Sales | \$217 | \$(2,190) |
| Gross profit and EBITDA | \$(111) | \$(2,054) |

To reduce the risks related to currency fluctuations, the Corporation uses derivative financial instruments such as foreign exchange forward contracts, which are recorded at fair value in the balance sheet. Considering that a loss on foreign exchange contracts of \$1 M was recognized as a decrease in sales in the fourth quarter of 2008, as opposed to a gain of \$205,000 in the fourth quarter of 2007, the use of foreign exchange contracts had a net unfavourable impact of \$1.2 M in the fourth quarter of 2008 compared with 2007 and a net unfavourable impact of \$1.5 M for fiscal 2008.

As at December 31, 2008, the Corporation held foreign exchange contracts totalling US\$55.7 M for a hedging period extending until December 31, 2011, at an average exchange rate of 1.1004. This amount represents a hedging of 73% of the expected inflows in U.S. dollars for the first twenty-four months and of 18% for the last twelve months.

| Summary of hedging by foreign exchange contracts as at December 31, 2008 <small>(in U.S. dollars)</small> | 12 Months January 2009 to December 2009 | 12 Months January 2010 to December 2010 | 12 Months January 2011 to December 2011 |
|--|---|---|---|
| Total foreign exchange contracts | \$25.7 M | \$24 M | \$6 M |
| Average exchange rate of contracts | 1.0708 | 1.1093 | 1.1910 |



Gross Profit

| (in thousands of dollars, except percentages and exchange rates) | 3 Months (Unaudited) | | | 12 Months | | |
|--|----------------------|----------|----------|-----------------|----------|----------|
| | 2008 | 2007 | % Change | 2008 | 2007 | % Change |
| Average effective exchange rate ⁽¹⁾ | 1.0652 | 1.0072 | 5.8% | 1.0276 | 1.0909 | (5.8)% |
| Sales | \$14,156 | \$14,006 | 1.1% | \$54,713 | \$57,520 | (4.9)% |
| Cost of goods sold | \$10,305 | \$11,138 | (7.5)% | \$42,078 | \$43,979 | (4.3)% |
| Gross profit | \$3,851 | \$2,868 | 34.3% | \$12,635 | \$13,541 | (6.7)% |
| As a % of sales | 27.2% | 20.5% | n/a | 23.1% | 23.5% | n/a |

⁽¹⁾ Calculated considering foreign exchange contracts used during the period

In the fourth quarter of 2008, sales were up 1.1% over the fourth quarter of 2007. The change between the average effective exchange rate used to translate sales from the United States had a positive impact of \$217,000 during the quarter. Without this favourable effect, sales for the fourth quarter of 2008 were down slightly by \$67,000 or 0.5% from the fourth quarter of 2007. During the quarter, the number of units sold in the *Elevators and Accessibility* segment decreased by 30% for *Elevators* products and by 10% for *Accessibility* products from the fourth quarter of 2007 due to the construction slowdown in the United States. Conversely, the increase in selling prices and the imposition of a surcharge to reflect the rise in oil and steel prices helped offset the decline in the number of units delivered in this segment. In the *Adapted Transportation* segment, fourth-quarter revenues increased by \$382,000 or 18% due mainly to the increase in the value of the U.S. dollar that had an impact on sales to the primary foreign customer of this segment.

For the twelve-month period, sales were down 4.9% from the same period of 2007. Excluding the unfavourable change resulting from the increase in the Canadian dollar (-3.8%), sales were down 1.1% due to the real estate crisis in the United States and the economic slowdown. Furthermore, the revenues expected following the various initiatives taken in 2007 and 2008 failed to materialize due, among others, to the delay in obtaining the certifications needed for the Corporation to sell the products of its Italian partner Vimec in North America.

For the twelve-month period, the proportion of sales from the United States was stable at 54% and totalled \$29.2 M. Consequently, the proportion of sales from outside North America stood at 6% and totalled \$3.5 M.

Gross profit grew by \$983,000 in the fourth quarter of 2008 over the same period of 2007, representing a sharp increase of 6.7% as a percentage of sales. Were it not for the increase in the Canadian dollar, the gross margin would have been 28.0%, representing a 7.5% increase as a percentage of sales over the fourth quarter of 2007. For the twelve-month period, gross profit decreased by \$906,000, representing a 0.4% decline in the gross margin which was relatively stable at 23.1%.



Were it not for the increase in the Canadian dollar, the gross margin would have been 26.8%, representing a 3.3% increase as a percentage of sales over fiscal 2007. A general decline in the cost of goods sold explains this favourable change. More specifically, savings of approximately \$800,000 were achieved on purchases of components and sub-assemblies from China. The purchasing volume from Chinese suppliers was up by 30% in 2008 over 2007.

Operating Earnings

| (in thousands of dollars, except percentages) | 3 Months (Unaudited) | | | 12 Months | | |
|---|----------------------|---------|------------|-----------------|----------|------------|
| | 2008 | 2007 | % Change | 2008 | 2007 | % Change |
| Selling and administrative expenses | \$3,321 | \$2,611 | 27.2% | \$11,339 | \$10,525 | 7.7% |
| <i>As a % of sales</i> | 23.5% | 18.6% | <i>n/a</i> | 20.7% | 18.3% | <i>n/a</i> |
| Operating earnings (loss) | \$334 | \$(259) | 229% | \$2,532 | \$1,717 | 47.5% |
| <i>As a % of sales</i> | 2.4% | (1.8)% | <i>n/a</i> | 4.6% | 3.0% | <i>n/a</i> |

Selling and administrative expenses were up by \$710,000 or 27.2% in the fourth quarter of 2008 over the same period of 2007. This increase is due mainly to the inclusion of the Chinese subsidiary's expenses in consolidated results (\$110 K), the increase in the *Adapted Transportation* segment's selling expenses for the marketing of new products (\$220 K) and the increase in doubtful accounts as a result of economic conditions (\$500 K). In 2007, a special stock-based compensation expense was recorded on the grant of stock options (\$108 K). For the same reasons, expenses for fiscal 2008 increased by \$814,000 or 7.7% over 2007.

The \$593,000 rise in fourth-quarter operating earnings is attributable to the improvement in gross profit (\$983 K), offset by the increase in selling and administrative expenses (\$710 K) and the addition, in 2007, of expenses related to the Laval plant closure (\$224 K). The \$815,000 improvement in operating earnings for fiscal 2008 stems from the inclusion in the second quarter of 2008 of the \$2 M gain realized on disposal of the Laval building and the addition, in 2007, of expenses related to the Laval plant closure (\$224 K) and the write-off of assets (\$110 K). These favourable differences were offset by the decrease in gross profit (\$906 K) and the increase in selling and administrative expenses (\$814 K).



Net Earnings

| (in thousands of dollars, except percentages) | 3 Months (Unaudited) | | | 12 Months | | |
|---|----------------------|---------|----------|----------------|-----------|----------|
| | 2008 | 2007 | % Change | 2008 | 2007 | % Change |
| Other revenues (expenses) | \$395 | \$(316) | 225% | \$626 | \$(1,495) | 142% |
| Earnings (loss) before income taxes | \$729 | \$(576) | 226% | \$3,158 | \$222 | 1,323% |
| Income taxes | \$876 | \$311 | 182% | \$1,609 | \$546 | 195% |
| Net earnings (loss) | \$(146) | \$(886) | 83.5% | \$1,549 | \$(324) | 578% |
| EBITDA | \$889 | \$(317) | 380% | \$4,121 | \$1,351 | 205% |

The favourable change in other revenues and expenses in the fourth quarter of 2008 is due to the recognition of a \$396 K gain subsequent to the evaluation of the fair value of a new long-term debt contracted in November 2008 at a favourable interest rate. In addition, unusual expenses were recorded in 2007; such items include a \$164 K loss from a Chinese subsidiary and a writedown of investments in ABCP of \$254,000 in 2007, compared with \$1.2 M in 2008 (see Section 20). In 2008, a \$1 M favourable change in the exchange gain, stemming mainly from the translation of U.S. dollar denominated monetary items, compensated for the increase in the writedown of investments in ABCP.

For fiscal 2008, other revenues and expenses showed a positive balance of \$2.1 M due mainly to a \$2.7 M increase in exchange gains.

The total exchange gain recognized in other revenues and expenses amounted to \$1.2 M for the fourth quarter of 2008, compared with a \$170,000 exchange gain for the same period of 2007, whereas a \$1.8 M exchange gain was recognized for the twelve-month period of 2008, as opposed to a \$927,000 exchange loss for the same period of 2007.

The effective tax rate for the fourth quarter of 2008 was 120%, compared with a combined corporate rate of 30.98%. This increase is due mainly to certain partially deductible or non-deductible expenses and the non-recognition of future income tax assets on the writedown of investments in ABCP given the uncertainty as the possibility of using these losses against future capital gains. The effective tax rate for the twelve-month period was also high at 50.9%, due to the second-quarter gain on disposal of the building that is only partially taxable, offset by the deferral of losses to periods with lower tax rates following the revision of expected future earnings and the non-recognition of future income tax assets on the writedown of investments in ABCP.

Finally, the Corporation posted a net loss of \$146,000 for the fourth quarter of 2008, compared with \$886,000 for the fourth quarter of 2007, and net earnings of \$1.5 M for the full twelve months of 2008, as opposed to a net loss of \$324,000 for the entire period in 2007.



11. Financial Position

Balance Sheet Changes

The following tableau shows the key changes in the consolidated balance sheets between December 31, 2008 and December 31, 2007, along with the principal explanations of such changes:

| (in thousands of dollars) | December 31, | | Change | Explanation of Changes |
|-------------------------------|-----------------|---------|---------|--|
| | 2008 | 2007 | | |
| Current assets | | | | |
| Cash and cash equivalents | \$5,203 | \$4,715 | 10.3% | |
| Less: bank loans | \$710 | \$940 | (24.5)% | Increase in long-term debt of \$6 M, of which \$4.1 M was invested in a long-term investment, disposal of assets held for sale (\$4.9 M), repayment of short-term loan related to assets held for sale (\$3.8 M), payment of a dividend (\$1.7 M) and share repurchases (\$724 K). |
| Net cash and cash equivalents | \$4,493 | \$3,775 | 19% | |
| Accounts receivable | \$9,512 | \$8,909 | 6.8% | Increase in exchange rate used for the translation of U.S. dollar denominated accounts receivable (\$1.2 M) and increase in allowance for doubtful accounts (\$496 K). |
| No. of days in receivables | 57 | 52 | 9.6% | - |
| Inventories | \$10,381 | \$9,682 | 7.2% | Increase in inventory in China (\$359 K). |
| Income taxes recoverable | \$725 | \$376 | 92.8% | Increase in research and development tax credits receivable. |

| (in thousands of dollars) | December 31, | | Change | Explanation of Changes |
|---|-----------------|-----------------|--------------|--|
| | 2008 | 2007 | | |
| Future income taxes | \$1,925 | \$912 | 111% | Impact of foreign exchange forward contracts on future income tax assets. |
| Current liabilities | | | | |
| Accounts payable | \$5,985 | \$6,562 | (8.8)% | Decrease in accounts payable (\$231 K) and salaries and accrued benefits (\$362 K). |
| No. of days in payables | 62 | 60 | 3.3% | - |
| Current liability related to assets held for sale | - | \$3,750 | (100)% | Loan repaid in the first quarter of 2008 subsequent to the sale of the Laval building. |
| Foreign exchange forward contracts | \$3,715 | - | 100% | The fair value of foreign exchange contracts represents a loss, broken down between the short term and long term as at December 31, 2008, whereas it represented a short-term gain of \$14 K as at December 31, 2007. |
| Current portion of long-term debt | \$1,233 | \$244 | 405% | Prepayment of a debt in the first quarter of 2008 (\$114 K), contracting of a new debt of which the current portion is \$1.1 M. |
| Working capital | \$16,078 | \$10,390 | 54.7% | Increase in accounts receivable and inventories (+\$1.3 M), increase in future income tax assets (+\$1 M), increase in current portion of long-term debt (-\$1 M) and reclassification as long term of an ABCP-related debt (+\$3 M), repayment of a current liability related to assets held for sales (+\$3.8 M), current portion of foreign exchange forward contracts (-\$3.7 M) |

| (in thousands of dollars) | December 31, | | Change | Explanation of Changes |
|------------------------------------|-----------------|----------|---------|---|
| | 2008 | 2007 | | |
| Current ratio | 2.30 | 1.69 | 36.1% | See above explanation. |
| Land and building held for sale | - | \$2,847 | (100)% | Assets sold in the second quarter of 2008. |
| Long-term investments | \$5,880 | \$2,720 | 116% | Investment of a portion of proceeds of a new long-term debt (\$4.1 M), writedown of investments in ABCP (\$1.4 M). |
| Long-term future income tax assets | \$2,551 | \$3,313 | (23)% | Use of loss carry-forwards in year's results (\$1.8 M) and impact of foreign exchange forward contracts (\$667 K). |
| Long-term debt | \$7,542 | \$431 | 1,650% | New long-term debt (\$4.5 M), reclassification of a current debt to LT debt (3 M), prepayment of a debt in the first quarter of 2008 (\$260 K) and normal repayment of debt (\$130 K). |
| Foreign exchange forward contracts | \$2,376 | - | 100% | The fair value of foreign exchange contracts represents a loss, broken down between the short term and long term as at December 31, 2008, whereas it represented a short-term gain of \$14 K as at December 31, 2007. |
| Shareholders' equity | \$17,839 | \$22,623 | (21.1)% | Share repurchases for cancellation (-\$723 K), YTD earnings (\$1.6 M), dividend (-\$1.7 M), change in accumulated other comprehensive income related to foreign exchange contracts (-\$4.1 M). |

As at December 31, 2008, Savaria benefited from a sound financial position, with total assets of \$40.7 M, versus \$38.7 M as at December 31, 2007, and total liabilities of \$22.8 M, versus \$16.1 M as at December 31, 2007.



Available Sources of Financing

| (in thousands of dollars) | December 31, | |
|---------------------------|----------------|----------|
| | 2008 | 2007 |
| Credit facilities: | | |
| Authorized | \$3,500 | \$11,500 |
| Loans | \$710 | \$3,940 |
| Unused credit | \$2,790 | \$7,560 |
| Cash and cash equivalents | \$5,203 | \$4,715 |
| Total | \$7,993 | \$12,275 |

As shown above, the Corporation has total available funds of \$8 M, providing it with the flexibility to meet its potential obligations in the near term. Since it only used a maximum of \$1 M of its line of credit in 2007, the Corporation reduced its credit facility by \$5 M in 2008 in order to increase the amount available in translation risk on foreign exchange contracts from \$3 M to \$6 M and the maximum hedging period from twelve to twenty-four months. In the fourth quarter, the Corporation signed an agreement with a federal body enabling it to increase its total risk exposure to \$15 M and the hedging period to thirty-six months.

The Corporation has at its disposal a line of treasury in the amount of \$600,000 in case it chooses to convert its variable interest rate long-term debt in the amount of \$6 M to a fixed rate debt.

As at December 31, 2008, its total net debt to invested capital ratio was only 19.4% (13.9% as at December 31, 2007), providing it with significant financial leverage to finance any large-scale project or strategic acquisition. In addition, on October 23, 2008, the Corporation contracted a long-term debt with a face value of \$6 M, of which \$4.1 M is retained in an investment account; this amount may be used to finance future acquisitions subject to approval by the Corporation's financial institution of potential projects.

On October 15, 2007, the Corporation entered into a temporary financing agreement with its bank to ensure the sufficient availability of liquidity to meet its financial obligations while awaiting the settlement of the investments in ABCP. The ABCP was pledged as security for this credit facility in the amount of \$3 M, fully used as at December 31, 2008. Subsequent to the conclusion of the restructuring plan, this loan was converted into long-term debt in the first quarter of 2009. For that reason, this credit facility has been reclassified as long term as at December 31, 2008.

Other Data and Ratios

| (in thousands of dollars, except per-share amounts – Unaudited) | December 31, | | Change |
|---|-----------------|----------|---------|
| | 2008 | 2007 | |
| Book value per share | \$0.65 | \$0.81 | (19.8)% |
| Cash and cash equivalents per share | \$0.19 | \$0.17 | 11.8% |
| Market capitalization | \$13,620 | \$33,495 | (59.3)% |

* For the last four quarters

The book value per share decreased in 2008 from 2007 due mainly to the impact of accumulated other comprehensive income related to the fair value of foreign exchange forward contracts on shareholders' equity. Cash and cash equivalents per share were relatively stable as at December 31, 2008 compared with December 31, 2007. However, market capitalization was lower as the traded share price as at December 31, 2008 was \$0.50, down from \$1.20 as at December 31, 2007.

12. Cash Flows

The following table presents certain cash flow data for the fourth quarters (three months) and the fiscal years (twelve months) ended December 31, 2008 and 2007.

| (in thousands of dollars) | 3 Months (Unaudited) | | 12 Months | |
|--|----------------------|---------|----------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| Cash flows from operating activities | \$1,378 | \$438 | \$951 | \$2,267 |
| Cash flows from (used in) investing activities | \$(3,891) | \$(230) | \$395 | \$(2,496) |
| Cash flows from (used in) financing activities | \$5,658 | \$3,149 | \$(858) | \$(1,015) |

In the fourth quarter of fiscal 2008, the Corporation's cash flows from operating activities were up by \$940,000 over the same quarter of the previous year due mainly to the increase in cash inflows from operations despite the outflows stemming from changes in accounts receivable and inventories. For the twelve-month period however, operating cash flows were down by \$1.3 M from the previous year because cash outflows stemming from changes in non-cash working capital items exceeded changes in cash inflows from operations.

Cash flows used in investing activities were \$3.7 M higher in the fourth quarter of 2008 than in the same period of 2007, whereas investing activities provided an additional \$2.9 M in cash flows for the twelve-month period. These changes can be explained primarily by the \$4.1 M increase in long-term investments in the fourth quarter of 2008, to which was added, for the twelve-month period, the cash inflows stemming from the disposal of the Laval building in the amount of \$4.9 M. The receipt in 2007 of \$1 M in temporary investments and the transfer of \$3 M in ABCP from cash and cash equivalents to long-term investments also explain the change for the twelve-month period.

Finally, Savaria's cash flows from financing activities were up by \$2.5 M in the fourth quarter of 2008 over the corresponding quarter of 2007 due mainly to the \$3 M increase in long-term debt over 2007. Total cash flows used in financing activities were similar for fiscal 2008 and fiscal 2007, with a favourable change of \$157,000.

13. Significant Accounting Estimates

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 asset-backed commercial paper ("ABCP"), stock-based compensation, the amortization of fixed assets and intangible assets, including goodwill, future income tax balances, the allowance for doubtful accounts and warranty provisions.

Such estimates are based on management's knowledge of current events and other assumptions it believes reasonable under the circumstances. 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 and software. 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%.

Long-Term Investments in ABCP

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

2008

On January 1, 2008, the Corporation adopted the following recommendations of the CICA Handbook:

Section 1400: General Standards on Financial Statement Presentation

This section has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern.

The adoption of the new standards of Section 1400 had no impact on the consolidated financial statements.

Section 1535: Capital Disclosures

This new standard establishes disclosure requirements concerning capital such as: qualitative information about its objectives, policies and processes for managing capital; quantitative data about what it regards as capital; whether it has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance.

The adoption of the new standards of Section 1535 had no impact on the Corporation's financial position or results but changed the information disclosed on capital.

Section 3031: Inventories

This section prescribes the accounting treatment for inventories by providing guidance on the determination of costs and its subsequent recognition as an expense, including any writedown to net realizable value. The standard also permits the reversal of previous writedowns when there is a subsequent increase in the value of inventories. Finally, the standard provides guidance on the cost formulas that are used to assign costs to inventories and requires the constant use of inventory policies by type of inventory with similar nature and use.

The adoption of the new standards of Section 3031 had no material impact on the consolidated financial statements.

Section 3862: Financial Instruments – Disclosure and Section 3863: Financial Instruments – Presentation

These new standards replace Section 3861, *Financial Instruments - Disclosure and Presentation*, revising and enhancing its disclosure requirements. The adoption of these new standards had the impact of changing the Corporation's analysis of its risks and increased its reporting obligations in the consolidated financial statements.

Future Accounting Changes

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

The CICA issued three new accounting standards in January 2009 : Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling Interests*. These new standards will be effective for the Corporation 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 accounting for 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 Section 1600 – *Consolidated Financial Statements*. Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. 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 statements relating to fiscal years beginning on or after January 1, 2011.

Section 3064: Goodwill and Intangible Assets

In January 2008, the CICA issued the following accounting standard: Section 3064, *Goodwill and Intangible Assets*. This new standard reinforces the approach under which assets are recorded only if they meet the definition of an asset and the recognition criteria for an asset. It also clarifies the application of the concept of matching costs with revenues, so as to eliminate the current practice of recognizing as assets items that do not meet the definition of an asset and the recognition criteria for an asset. On January 1, 2009, the Corporation will apply this standard retrospectively with restatement of prior periods. The Corporation is currently assessing the impact of the initial application of this standard on its consolidated financial statements.

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 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. During the period preceding the conversion, the ASB will continue to publish accounting standards that converge toward IFRS, thereby mitigating the impact of adopting IFRS at the conversion date. 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 or after January 1, 2011. The Corporation has therefore drawn up a plan for the conversion of its consolidated financial statements to IFRS. The Corporation has also identified the persons assigned to the project. These employees have started their training and are monitoring the impact of the transition on the Corporation's business practices, systems and internal control over financial reporting.

The Corporation will conduct a detailed analysis of the differences between IFRS and its accounting policies and will assess the impact of the various alternative solutions it could adopt. Changes in accounting policies are probable and will likely have a material impact on the Corporation's 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, 2008 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, 2008, 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 2008 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 \$6,076,294 (\$6,928,616 in 2007). The Corporation has also committed itself with one of its suppliers to purchase a minimum number of scooters of 1,100 in 2009 and 1,200 in 2010 in order to retain its exclusive right to sell these products.

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

| (in thousands of dollars) | Total | 2009 | 2010 | 2011 | 2012 | 2013 | After 2013 |
|-------------------------------|-----------------|---------|---------|---------|---------|---------|------------|
| Long-term debt obligations | \$8,776 | \$1,229 | \$1,061 | \$2,498 | \$2,540 | \$1,019 | \$429 |
| Capital leases | \$5 | \$5 | - | - | - | - | - |
| Operating leases | \$6,076 | \$1,810 | \$1,832 | \$1,406 | \$976 | \$52 | - |
| Total contractual obligations | \$14,857 | \$3,044 | \$2,893 | \$3,904 | \$3,516 | \$1,071 | \$429 |

17. Off-Balance Sheet Arrangements

Savaria did not enter into any off-balance sheet arrangements during fiscal 2008.

18. Related-Party Transactions

The Corporation recorded an amount of \$88,310 (\$59,600 in 2007) 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.

On August 22, 2008, the Corporation paid an amount of \$216,055 to an employee and close relative of the President related to the transfer of the capital of a VIE. The transaction was completed at cost and assets and liabilities were not re-evaluated.

19. Financial Instruments

Fair Value of Financial Instruments

As at December 31, 2008, the carrying amount of current financial assets primarily composed of trade and other receivables, and short-term financial liabilities approximate their fair value given that they are expected to be realized in the short term. The carrying amount of long-term financial assets classified as loans and receivables

consisting primarily of long-term loans differs slightly from their fair value since they do not bear interest at current going rates. The carrying amount of long-term investments in ABCP classified as held to maturity approximates their fair value given that a permanent impairment was recognized in 2007 and in 2008.

The carrying amount of long-term investments other than ABCP classified as held to maturity approximates their fair value given that they mature in the short term. The carrying amount of other long-term financial liabilities approximates their fair value given that they subject to terms, including variable interest rates, similar to those the Corporation could obtain for instruments with similar terms with the exception of a debt in the amount of \$6,000,000 that was re-evaluated at its fair value of \$5,604,365, because of its favourable interest rate.

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) Market Risks

Currency Risk

The Corporation realizes approximately 59% (58% in 2007) of its sales in foreign currencies and accordingly is exposed to market risks related to foreign exchange fluctuations. 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 its functional currency. The objective of this 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 foreign currencies is to 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.

The Corporation does not hold derivative financial instruments for speculative or trading purposes. Derivative financial instruments are subject to normal credit ratings, financial controls, risk management as well as monitoring procedures.

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, 2008, given the sudden decline in the Canadian dollar in relation to the average rate of outstanding foreign exchange forward contracts, the Corporation presented a receivable amount of other comprehensive income of \$4.1 M (payable amount of \$96,000 as at December 31, 2007). The amount of the 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*. As at December 31, 2008, U.S. dollar denominated monetary items amounted to US\$5.4 M (US\$5.8 M as at December 31, 2007). With other variables unchanged, a \$0.01 strengthening (weakening) of the Canadian dollar against the U.S. dollar would have had an unfavourable (favourable) impact on *Other Revenues and Expenses* of approximately \$54,000 (\$58,000 as at December 31, 2007).

Interest Rate Risk

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 cash flow interest rate risk, whereas investments and borrowings issued at fixed rates expose the Corporation to fair value interest rate risk.

The Corporation analyzes its interest rate exposure on a continual basis and examines its renewal and refinancing options in order to minimize risks.

Interest income and expenses are recognized in *Other Revenues and Expenses*. As at December 31, 2008, net monetary items at with a variable interest rate amounted to \$178,000 (-\$483,000 as at December 31, 2007). With other variables unchanged, a 1% increase (decrease) in the prime rate would have had an unfavourable (favourable) impact on *Other Revenues and Expenses* of approximately \$2,000 (-\$5,000 as at December 31, 2007) on an annual basis.

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, 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. The Corporation does not make use of derivative products on the price of materials.

(b) Credit Risk

Cash and cash equivalents are held or issued by "high-credit quality" financial institutions. Therefore, the Corporation considers that the risk of non-performance of those 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.

(c) 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. In order to insure that sufficient liquidity is available to meet current obligations, the Corporation maintains similar payment terms with its customers as it has with its suppliers. The Corporation has sufficient credit facilities available to make up for temporary lapses in synchronization of inflows and outflows of funds.

In order to increase its liquidity, the Corporation has entered into a long-term financing agreement of \$6 M, of which \$1.9 M was used to increase its working capital. As at December 31, 2008, the Corporation had at its disposal working capital of \$16,078,000 (\$10,389,000 as at December 31, 2007) and unused credit facilities of \$2,790,000 (\$7,560,000 as at December 31, 2007).

20. Risks and Uncertainties

Savaria is involved in an industry subject to various risks and uncertainties. Its operating results and financial position could therefore be adversely affected by such financial risks, as well as 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 unimportant.

Economic Conditions

The purchase of elevators is often a discretionary expense and, accordingly, sensitive to economic fluctuations and conditions in the residential real estate market. The Corporation is currently sustaining the impact of the real estate market slowdown in the United States and the global economic downturn. The Corporation has taken measures to control its expenses and to adjust its 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 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 2008, the percentage of Savaria's sales recorded in the United States totalled 53.4% (53.7% in 2007). 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 (see *Economic Conditions* above).

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

The Corporation holds investments in the amount of \$3,636,795 (US\$2,985,874) that are invested in ABCP issued by SLATE Trust and ROCKET Trust. This ABCP had a "R1-(high)" rating according to Dominion Bond Rating Services ("DBRS") and met the Corporation's investment criteria at its acquisition date. The ABCP held by the Corporation matured on various dates between August 30 and September 5, 2007. In mid-August 2007, a number of non-bank sponsors of ABCP, including those with which the Corporation had invested, announced that they could not place ABCP due to unfavourable conditions in Canadian capital markets. As a result, there is presently no active market for the ABCP held by the Corporation.

On December 24, 2008, the Pan Canadian Investor Committee announced that the final terms of the restructuring plan had been agreed to, this confirmed to the Corporation that its ABCP would be replaced by long-term floating rate notes ("New Notes"). Therefore, as at December 31, 2008, the non-bank ABCP remained the subject of a restructuring process that was completed on January 21, 2009. The restructuring plan pooled all the underlying assets from all the ABCP trusts with the exception of those assets designated as ineligible for pooling ("Ineligible Assets") and those series of assets backed exclusively by traditional financial assets ("Traditional Assets"). The pooled notes are principally backed by structured credit products ("Synthetic Assets").

Consequently, the Corporation's ABCP that had its assets pooled was replaced on January 21, 2009 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.

Summary of Valuation

The fair value estimate of the New Notes to be received under the restructuring plan has been calculated based on information provided by the Pan Canadian Investor Committee as well as Ernst & Young Inc., the Monitor of the restructuring. The table below summarizes the Corporation's valuation.

| Restructuring Categories (in thousands of US \$) | Face Value | Estimated Fair Value * | Expected Maturity Date |
|---|------------|---------------------------|---------------------------|
| MAV 2 notes | | | |
| A1 (rated A) | \$838.2 | \$559.3 | July 15, 2056 |
| C | 25.9 | 3.1 | July 15, 2056 |
| Traditional asset-tracking notes | | | |
| MAV 3 – Class 14 | 650 | 507.6 | January 1, 2021 |
| Ineligible asset-tracking notes | | | |
| MAV 2 – Class 13 | 131.5 | 26.2 | March 20, 2014 |
| MAV 3 – Class 25 | 1,340.3 | 365.3 | December 25, 2036 |
| Total investments | \$2,985.9 | \$1,461.5 | |

* the range of fair values estimate by the Corporation varies between US\$1.64 million and US\$1.29 million

Evaluation

The Corporation has estimated the fair value of ABCP at December 31, 2008 using the following methodology and assumptions. Using available information, the Corporation determined or estimated the principal characteristics of the New Notes, including the interest rate, maturity date and credit rating. Then, it estimated the yield that a potential investor would require in order to purchase each class of New Notes. The Corporation then used this information to calculate a net present value for each class of New Notes.

In the case of the A1 notes, it is estimated that they will pay interest at a rate 0.5% less than the bankers' acceptances ("BA") rate and it is estimated that prospective buyers of those notes will require premium yields of between 5% and 7% in excess of the BA rate.

The Class C notes pay interest at a rate of 20% above the BA rate. On the other hand, it is not expected that any interest will be paid out since these notes are subordinated to the Class B notes that are, in turn, subordinated to the Class A1 and A2 notes. In light of this subordination, the Class C notes are viewed as highly speculative with regard to the ultimate payment of principal at maturity in 2056. Accordingly, it is expected that the Class C notes have a fair value of approximately 12% of par value.

The notes backed by Traditional Assets are estimated to generate interest income of 0.5% above the BA rate and a prospective buyer of those notes is estimated to require a premium of 3% over the BA rate.

The notes backed by Ineligible Assets are estimated to generate interest of approximately 0.5% above the BA rate and a prospective investor will require yields of between 10% and 100% in excess of the BA rate. These

higher yield requirements reflect the observation that some of the underlying assets are significantly distressed in today's market.

Based upon a sensitivity analysis of the assumptions used, the expected yield required by a potential investor remains the most significant assumption included in the fair value estimate. Based on this exercise, the Corporation estimated that the range of potential values of the new notes was between US\$1.64 million and US\$1.29 million. As at December 31, 2008, the fair value of investments in ABCP was estimated at \$1,780,126 (US\$1,461,516) and these investments are presented on a long-term basis.

21. Outlook

Management remains highly confident that the demand for accessibility products will continue to grow given the aging population. However, it expects that the coming quarters will be difficult and that sales of residential and commercial elevators will fall due to the slowdown in the U.S. real estate market.

The Corporation nevertheless benefits from sufficient liquidity, a solid financial position and sources of financing. These strong fundamentals, combined with the initiatives taken pursuant to its business strategy, should enable the Corporation to weather this turbulent period.

March 24, 2009

**SAVARIA CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2008 AND 2007**

SAVARIA CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2008 AND 2007

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of "**SAVARIA CORPORATION**" are the responsibility of management and have been approved by the Board of Directors.

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgements.

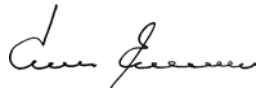
To discharge its responsibilities, the company has developed and maintains systems of internal accounting controls and has established policies and procedures adapted to the industry in which it operates. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors must ensure that management fulfils its financial reporting responsibilities and is ultimately responsible for reviewing and approving the financial statements. The Audit Committee meets regularly with management to discuss the internal controls over the financial reporting process and financial reporting issues. The Committee also reviews the annual consolidated financial statements and the external auditors' report, and reports its findings to the Board for consideration when approving the financial statements for issuance to the company's shareholders. The auditors appointed by the shareholders have full access to the Audit Committee, with or without management being present.

These consolidated financial statements have been audited by the auditors appointed by the shareholders, PricewaterhouseCoopers LLP/s.r.l/s.e.n.c.r.l, Chartered Accountants.



Marcel Bourassa
Chairman of the Board and Chief Executive Officer



Jean-Marie Bourassa, CA
Chief Financial Officer

Auditors' Report

**To the Shareholders of
Savaria Corporation**

We have audited the consolidated balance sheets of **Savaria Corporation** as at December 31, 2008 and 2007 and the consolidated statements of earnings and comprehensive loss, retained earnings and cash flows for each of the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP¹

Montréal, Quebec
March 24, 2009

¹ Chartered accountant auditor permit No. 19042

SAVARIA CORPORATION
CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

| | 2008 | 2007 |
|---|----------------------|---------------|
| SALES | \$ 54,713,076 | \$ 57,519,690 |
| OPERATING EXPENSES | | |
| Cost of goods sold | 42,078,118 | 43,979,192 |
| Selling and administrative expenses | 11,338,979 | 10,525,426 |
| Amortization of fixed assets | 386,358 | 522,710 |
| Amortization of deferred development costs | 258,133 | 200,154 |
| Amortization of intangible assets | 151,724 | 241,037 |
| Restructuring expense (revenue) (note 5) | (2,032,476) | 223,871 |
| Write off of assets (note 6) | - | 110,004 |
| | 52,180,836 | 55,802,394 |
| OPERATING EARNINGS | 2,532,240 | 1,717,296 |
| OTHER REVENUES AND EXPENSES (note 7) | 626,146 | (1,495,201) |
| EARNINGS BEFORE INCOME TAXES | 3,158,386 | 222,095 |
| INCOME TAXES (note 19B) | (1,609,109) | (546,022) |
| NET EARNINGS (LOSS) | \$ 1,549,277 | \$ (323,927) |
| Net earnings (loss) per common share | | |
| Basic | \$ 0.057 | \$ (0.011) |
| Diluted | \$ 0.057 | \$ (0.011) |
| Average number of common shares outstanding (note 22C) | | |
| Issued | 27,298,997 | 28,283,564 |
| Diluted | 27,298,997 | 28,370,876 |

SAVARIA CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

| | 2008 | 2007 |
|--|-----------------------|--------------|
| NET EARNINGS (LOSS) | \$ 1,549,277 | \$ (323,927) |
| OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAXES | | |
| Unrealized gains (losses) on foreign exchange contracts designated as cash flow hedges, net of income taxes of \$1,896,698 (2007-\$146,246) | (4,297,273) | 295,427 |
| Unrealized (gains) losses on foreign exchange contracts designated as cash flow hedges in prior periods transferred to net income in the current period, net of income taxes of \$98,096 (2007-\$98,761) | 218,547 | (198,980) |
| OTHER COMPREHENSIVE INCOME (LOSS) | (4,078,726) | 96,447 |
| COMPREHENSIVE LOSS | \$ (2,529,449) | \$ (227,480) |

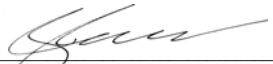
SAVARIA CORPORATION
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

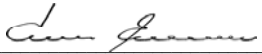
| | 2008 | 2007 |
|--|---------------------|--------------|
| BALANCE - beginning of year | \$ 5,123,653 | \$ 8,793,905 |
| NET EARNINGS (LOSS) | 1,549,277 | (323,927) |
| | 6,672,930 | 8,469,978 |
| Excess over book value of repurchased shares | (339,952) | (988,921) |
| DIVIDENDS on common shares | (1,736,791) | (2,357,404) |
| BALANCE - end of year | \$ 4,596,187 | \$ 5,123,653 |
| | | |

SAVARIA CORPORATION
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2008 AND 2007

| | 2008 | 2007 |
|---|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 5,202,780 | \$ 4,714,615 |
| Accounts receivable (note 8) | 9,511,908 | 8,908,624 |
| Inventories (note 9) | 10,380,605 | 9,682,137 |
| Prepaid expenses | 609,134 | 685,919 |
| Foreign exchange forward contracts (note 28A) | - | 14,009 |
| Income taxes receivable | 725,052 | 376,368 |
| Current portion of long-term loans (note 15) | 99,103 | 102,927 |
| Future income taxes (note 19A) | 1,924,751 | 912,221 |
| | 28,453,333 | 25,396,820 |
| LAND AND BUILDING HELD FOR SALE (note 10) | - | 2,846,518 |
| FIXED ASSETS (note 11) | 1,572,417 | 1,796,159 |
| DEFERRED DEVELOPMENT COSTS (note 12) | 484,706 | 683,491 |
| INTANGIBLE ASSETS (note 13) | 1,083,529 | 1,222,629 |
| GOODWILL | 506,230 | 506,230 |
| LONG-TERM INVESTMENTS (note 14) | 5,880,126 | 2,719,929 |
| LONG-TERM LOANS (note 15) | 152,532 | 204,799 |
| FUTURE INCOME TAXES (note 19A) | 2,550,599 | 3,312,659 |
| | \$ 40,683,472 | \$ 38,689,234 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Bank loans (note 16) | \$ 710,000 | \$ 940,000 |
| Short-term debt (note 14A) | - | 3,000,000 |
| Current liability related to assets held for sale (note 10) | - | 3,750,000 |
| Accounts payable (note 17) | 5,984,551 | 6,561,932 |
| Deferred revenues | 442,861 | 243,218 |
| Warranty provision (note 20) | 289,693 | 267,976 |
| Foreign exchange forward contracts (note 28A) | 3,714,953 | - |
| Current portion of long-term debt (note 18) | 1,233,454 | 244,212 |
| | 12,375,512 | 15,007,338 |
| WARRANTY PROVISION (note 20) | 550,505 | 516,605 |
| FOREIGN EXCHANGE FORWARD CONTRACTS (note 28A) | 2,376,366 | - |
| LONG-TERM DEBT (note 18) | 7,542,141 | 430,962 |
| NET LIABILITY OF A VIE (note 21) | - | 111,241 |
| | 22,844,524 | 16,066,146 |
| SHAREHOLDERS' EQUITY | | |
| Capital stock (note 22B) | 15,565,977 | 15,949,915 |
| Contributed surplus (note 23) | 1,745,891 | 1,539,901 |
| Retained earnings | 4,596,187 | 5,123,653 |
| Accumulated other comprehensive income (loss) (note 24) | (4,069,107) | 9,619 |
| | 17,838,948 | 22,623,088 |
| | \$ 40,683,472 | \$ 38,689,234 |

ON BEHALF OF THE BOARD OF DIRECTORS


_____, Director
Marcel Bourassa


_____, Director
Jean-Marie Bourassa C.A.

SAVARIA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

| | 2008 | 2007 |
|--|---------------------|--------------|
| OPERATING ACTIVITIES | | |
| Net earnings (loss) | \$ 1,549,277 | \$ (323,927) |
| Adjustments for : | | |
| Amortization of fixed assets | 386,358 | 522,710 |
| Amortization of deferred development costs | 258,133 | 200,154 |
| Amortization of intangible assets | 151,724 | 241,037 |
| Write off of assets (note 6) | - | 110,004 |
| Write down of investments in ABCP (note 14) | 1,352,119 | 253,971 |
| Future income taxes | 1,548,132 | 402,228 |
| Difference between the fair value and the face value of long-term debt | (395,635) | - |
| Remuneration expense on stock options granted | 205,990 | 242,079 |
| Foreign exchange contracts cashed-in in advance | 228,000 | - |
| Change in warranty provision | 55,617 | (34,673) |
| (Gain) loss on disposal of fixed assets | (1,985,511) | 9,322 |
| Non-materialized (gain) loss on foreign currency exchange | (465,599) | 405 |
| | 2,888,605 | 1,623,310 |
| Net changes in non-cash working capital items (note 4B) | (1,937,630) | 643,818 |
| Cash flows from operating activities | 950,975 | 2,267,128 |
| INVESTING ACTIVITIES | | |
| Changes in temporary investments | - | 988,586 |
| Settlement of the net liability of a VIE (note 21) | (216,055) | - |
| Changes in long-term investments | (4,100,000) | (2,984,400) |
| Proceeds from disposal of fixed assets | 4,875,957 | 2,750 |
| Additions to fixed assets | (206,544) | (216,110) |
| Deferred development costs | (59,348) | (371,844) |
| Additions to amortizable intangible assets | (12,624) | (115,547) |
| Proceeds from long-term loans | 113,868 | 200,235 |
| Cash flows from (used in) investing activities | 395,254 | (2,496,330) |
| FINANCING ACTIVITIES | | |
| Changes in bank loans | (230,000) | 290,000 |
| Increase in short-term debt | - | 3,000,000 |
| Increase in long-term debt | 6,000,000 | - |
| Repayment of current liability related to assets held for sale | (3,750,000) | - |
| Repayment of long-term debt | (518,006) | (774,743) |
| Contribution from a VIE | 100,623 | 111,241 |
| Dividends paid on common shares | (1,736,791) | (2,357,404) |
| Shares repurchased for cancellation | (723,890) | (1,508,795) |
| Issuance of shares | - | 225,000 |
| Cash flows used in financing activities | (858,064) | (1,014,701) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 488,165 | (1,243,903) |
| CASH AND CASH EQUIVALENTS - beginning of year | 4,714,615 | 5,958,518 |
| CASH AND CASH EQUIVALENTS - end of year | \$ 5,202,780 | \$ 4,714,615 |

Cash and cash equivalents include bank balances and temporary investments with an initial maturity of three months or less.

1. NATURE OF ACTIVITIES

The activities of the Corporation consist of manufacturing, installing and distributing elevators, platforms and stairlifts for people with mobility challenges as well as converting and adapting vehicles for persons with physical disabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the following significant accounting policies :

A) Principles of Consolidation

These consolidated financial statements comprise the accounts of the Corporation and its subsidiaries as listed below. As at December 31, 2007, they also include the accounts of a variable interest entity ("VIE").

| Subsidiaries | December 31, 2008 % | December 31, 2007 % |
|---|------------------------|------------------------|
| Savaria Concord Lifts Inc. | 100 | 100 |
| Weber Accessibility Systems, Inc. - inactive | 100 | 100 |
| Richardson Elevators (1191852 Ontario Limited) - inactive | 100 | 100 |
| Van-Action (2005) Inc. | 100 | 100 |
| Concord Elevator Holdings Inc. - inactive | 100 | 100 |
| Savaria (Huizhou) Mechanical Equipment Manufacturing Co., LTD | 100 | VIE |

Intercompany balances and transactions have been eliminated.

B) Use of Estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The main estimates include the measurement of the fair value of the financial instruments, including derivatives and investments in asset-backed commercial paper ("ABCP"), the remuneration expense on stock options granted, the amortization of fixed assets and intangible assets, including goodwill, future income tax balances, the allowance for doubtful accounts and the warranty provisions. Actual results could differ from those estimates.

C) Foreign Currencies

The U.S. and Chinese subsidiaries are defined as integrated foreign operations. The Corporation follows the temporal method to translate its foreign currency balances and those of its U.S. and Chinese subsidiaries. Under this method, monetary assets and liabilities are translated at the rates of exchange in effect at balance sheet date and non-monetary assets and liabilities are measured at historical rates. Revenues and expenses are translated at the exchange rate in effect at the date of the transaction. Exchange gains and losses are included in net earnings for the year.

D) Revenue Recognition

Sales are recognized when persuasive evidence of an agreement exists, products have been shipped, price is determined and ultimate collection is reasonably assured. A provision for product warranty is set up when sales are recognized. Given that products are custom made, goods, generally, may not be returned.

E) Impairment of Long-Lived Assets

The Corporation reviews, when circumstances indicate it to be necessary, the carrying values of its long-lived assets by comparing the carrying amount of the asset or group of assets to the expected future undiscounted cash flows to be generated by the asset or group of assets. An impairment loss is recognized when the carrying amount of an asset or group of assets held for use exceeds the sum of the undiscounted cash flows expected from its use or eventual disposal. The impairment loss is measured as the amount by which the asset carrying amount exceeds its fair value, based on quoted market prices, when available, or on the estimated current value of future cash flows.

F) 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 values 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 years in which the assets and liabilities will be discharged or recovered. Future income tax assets which arise from deferred losses and temporary differences are accounted for when it is more likely than not that the asset will be realized.

SAVARIA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**G) Cash and Cash Equivalents**

Cash and cash equivalents consist of bank balances and temporary investments with an initial maturity of three months or less and are presented at cost, which is considered to approximate fair market value.

H) Trade Receivable

The Corporation establishes an allowance for doubtful accounts receivable based on the specific credit risk of its customers and historical trends.

I) Inventories

Raw materials and sub-assembly components are valued at the lower of cost and net realizable value, with cost being determined using the first-in, first-out method.

Work in process and finished goods are valued at the lower of cost and net realizable value. Their cost includes raw materials as well as an allocation of direct labour and manufacturing overheads.

The reversal of previous write-downs when there is a subsequent increase in the net realizable value of inventories is permitted.

J) Fixed Assets and Amortization

Fixed assets are accounted for at cost. Amortization is based on their estimated useful life using the following methods and annual rates or period:

| | Method | Rate or period |
|-------------------------|-------------------|---------------------|
| Machinery and equipment | Declining balance | 20% |
| Office furniture | Declining balance | 20% |
| Rolling stock | Declining balance | 30% |
| Computer hardware | Declining balance | 30% |
| Leasehold improvements | Straight-line | Terms of the leases |

K) Deferred Development Costs

Development costs are accounted for at cost and are deferred to future periods if all of the following criteria are satisfied: the product or procedure is clearly defined, the technical feasibility of the product or procedure has been clearly established, management has indicated its intention to manufacture the product or use the procedure, the market for the product is clearly defined, and the Corporation has adequate resources to complete the project. Development costs are amortized using the straight-line method over a period of three years.

Research and development tax credits are booked against deferred development costs when they are related to deferred costs. Other research and development tax credits are booked against selling and administrative expenses.

L) Intangible Assets

Intangible assets consist of trademarks, client lists and computer software. Trademarks are not amortized since they have an indefinite life span, 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 a permanent decline in value. Client lists are amortized by using the straight-line method over their projected useful lives of ten years. Computer software is amortized by using the declining balance method with an annual rate of 30%.

M) Goodwill

Goodwill is not amortized, instead the Corporation assesses periodically whether a provision for impairment in the value of goodwill should be recorded against earnings. This is accomplished by determining whether projected discounted future cash flows exceed the net book value of the business unit. Goodwill is tested for impairment annually on December 31, and when an event or circumstance occurs that could potentially result in a permanent decline in value.

The Corporation has performed impairment tests on the carrying amount of goodwill as at December 31, 2008 and has concluded that no impairment loss should be recognized.

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

N) Earnings Per Share

Basic net earnings per share is based on the weighted average of common shares issued and outstanding, and is calculated by dividing net earnings applicable to common shares by the weighted average number of shares outstanding during the period. Diluted net earnings per share is calculated by dividing net earnings applicable to common shares by the weighted average number of shares used in the basic earnings per share calculation plus the weighted number of common shares that would be issued, assuming that all potentially dilutive stock options outstanding were translated using the treasury stock method.

O) 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.

P) Financial Instruments

The Corporation uses financial instruments to manage risks relating to foreign currency fluctuations.

Derivative instruments are contracts that require or provide an option to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts. Derivative instruments are used by the Corporation in the management of its foreign currency and not for speculative purposes.

In order for a derivative to qualify for hedge accounting, the hedge relationship must be designated and formally documented at its inception. The documentation must include an outline of the particular risk management objective and strategy, the specific asset, liability or cash flow being hedged, as well as how effectiveness is assessed. The derivative must be effective in accomplishing the objective of offsetting either changes in the fair value or cash flow attributable to the risk being hedged both at inception and over the term of the hedging relationship.

The Corporation hedges its foreign exchange exposure on anticipated sales denominated in U.S. dollars through the use of forward contracts. Resulting gains and losses are recognized when the designated sale is recognized and are included in "Sales."

3 . CHANGES IN ACCOUNTING POLICIES

A) 2007

On January 1, 2007, the Corporation adopted the following recommendations of the "CICA" Handbook :

Section 1506:Accounting Changes

This Section establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies and estimates, and correction of errors.

Section 1530:Comprehensive Income

This Section describes how to report and disclose comprehensive income and its components. Comprehensive income is the change in a Corporation's net assets that results from transactions, events or circumstances from sources other than the Corporation's shareholders. It includes items that would not normally be included in net earnings, such as :

- changes in the currency translation adjustment relating to self-sustaining foreign operations;
- unrealized gains or losses on available-for-sale investments.

The CICA also made changes to Handbook Section 3250, *Surplus*, and reissued it as Section 3251, *Equity*. The changes in how to report and disclose equity and changes in equity are consistent with the new requirements of Section 1530, *Comprehensive Income*.

Adopting these Sections has required the Corporation to start reporting the following items in the consolidated financial statements :

- comprehensive income and its components;
- accumulated other comprehensive income and its components.

Section 3855:Financial Instruments – Recognition and Measurement

This Section describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives.

This Section requires that:

- i) all financial assets be measured at fair value, with some exceptions such as loans and investments that are classified as held to maturity;
- ii) all financial liabilities be measured at fair value if they are derivatives or classified as held for trading purposes. Other financial liabilities are measured at their carrying value;
- iii) all derivative financial instruments be measured at fair value, even when they are part of a hedging relationship.

3 . CHANGES IN ACCOUNTING POLICIES (Cont'd)

The adoption of this Section resulted in the following classifications:

- Cash and cash equivalents are classified as assets held for trading and are measured at fair value. Gains and losses resulting from periodic revaluations are recorded in earnings.
- Trade receivables and other accounts receivable and long-term loans are classified as loans and receivables and are initially measured at fair value. Subsequent valuations are measured at amortized cost using the effective interest method.
- Long-term investments are classified as investments held until maturity and are initially measured at fair value. Subsequent valuations are measured at amortized cost using the effective interest method.
- Bank loans, short-term debt, accounts payable and long-term debt are classified as other liabilities and are initially measured at fair value. Subsequent valuations are measured at amortized cost using the effective interest method.

Section 3865:Hedges

This Section requires that :

In a fair value hedge, hedging derivatives must be carried at fair value, with changes in fair value recognized in the consolidated statement of earnings. The changes in the fair value of the hedged items attributable to the hedged risk must also be recorded in consolidated earnings by way of a corresponding adjustment of the carrying amount of the hedged items recognized in the consolidated balance sheet. In a cash flow hedge, the changes in fair value of derivative financial instruments must be recorded in other comprehensive income. These amounts are reclassified in the consolidated statement of earnings in the periods in which results are affected by the cash flows of the hedged item. Similarly, any hedge ineffectiveness must be recorded in the consolidated statement of earnings in cash and cash equivalents and income from financial market operations.

As a result of the application of these new standards, an unrealized loss on foreign exchange contracts was recorded in "Other comprehensive income" at the date of the adoption of this Section.

B) 2008

On January 1, 2008, the Corporation adopted the following recommendations of the CICA Handbook:

Section 1400:General standards on Financial Statement Presentation

This section has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern.

The adoption of the new standards of Section 1400 has had no impact on the consolidated financial statements.

Section 1535:Capital Disclosures

This new standard establishes disclosure requirements concerning capital such as: qualitative information about objectives, policies and processes for managing capital; quantitative data about what an entity regards as capital; whether it has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance.

The adoption of Section 1535 has had no impact on the Corporation's financial situation or results but it changed the information disclosed on capital (note 22).

Section 3031:Inventories

This Section prescribes the accounting treatment for inventories by providing guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. The standard also permits the reversal of previous write-downs when there is a subsequent increase in the value of inventories. Finally, the standard provides guidance on the cost formulas that are used to assign costs to inventories and that require the constant use of inventory policies by type of inventory with similar nature and use.

The adoption of the new standards of Section 3031 has had no material impact on the consolidated financial statements.

Section 3862:Financial Instruments - Disclosures and Section 3863:Financial Instruments - Presentation

These new standards replace Section 3861, *Financial Instruments - Disclosure and Presentation*, revising and enhancing its disclosure requirements. The adoption of these new standards has had the impact of changing the Corporation's analysis of its risks and has increased its reporting obligations in the consolidated financial statements (note 28).

3 . CHANGES IN ACCOUNTING POLICIES (Cont'd)

C) Future Accounting Changes

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

The CICA issued three new accounting standards in 2009 : Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling Interests*. These new standards will be effective for the Corporation 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 accounting for 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 Section 1600 - *Consolidated Financial Statements*. Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. 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 statements relating to fiscal years beginning on or after January 1, 2011.

Section 3064: Goodwill and Intangible Assets.

In January 2008, the CICA issued the following accounting standard : Section 3064, *Goodwill and Intangible Assets*. This new standard reinforces the approach under which assets are recorded only if they meet the definition of an asset and the recognition criteria for an asset. It also clarifies the application of the concept of matching costs with revenues, so as to eliminate the current practice of recognizing as assets items that do not meet the definition of an asset and the recognition criteria for an asset. On January 1, 2009, the Corporation will apply this standard retrospectively with restatement of prior periods. The Corporation is currently assessing the impact of the initial application of this standard on its consolidated financial statements.

International Financial Reporting Standards ("IFRS")

In February 2008, Canada's Accounting Standards Board ("AcSB") confirmed that Canadian GAAP, as used by public Corporations, will be superseded by IFRS for fiscal years beginning on or after January 1, 2011. The Corporation will be required to report under IFRS for its interim and annual financial statements for the fiscal year ending December 31, 2011. The Corporation is currently preparing its IFRS conversion plan. The plan will be aimed in particular at identifying the differences between IFRS and the Corporation's accounting policies, assessing their impact and, where necessary, analysing the various policies that the Corporation could elect to adopt.

4 . CASH FLOWS

A. Interest expenses and Income Taxes

Cash flows related to interest expenses and income taxes are as follows :

| | 2008 | 2007 |
|-------------------|------------|------------|
| Interest paid | \$ 336,867 | \$ 449,245 |
| Income taxes paid | \$ 33,336 | \$ 31,825 |

B. Net Changes in Non-cash Working Capital Items

| | 2008 | 2007 |
|-------------------------|----------------|--------------|
| Accounts receivable | \$ (589,525) | \$ 1,102,271 |
| Inventories | (698,468) | (7,804) |
| Prepaid expenses | 76,785 | (26,473) |
| Income taxes receivable | (348,684) | (55,400) |
| Accounts payable | (577,381) | (245,722) |
| Deferred revenues | 199,643 | (123,054) |
| | \$ (1,937,630) | \$ 643,818 |

C. Non-cash Transactions

In 2007 and 2008, there were non-cash transactions related to share cancellations (note 22B). As well, in 2007, there were non-cash transactions related to the conversion of balances receivable into long-term loans (note 15) and the issuance of a loan to an employee (note 22B).

5 . RESTRUCTURING EXPENSES (REVENUES)

The following table summarizes the components of restructuring expenses (revenues):

| | 2008 | 2007 |
|---|-----------------------|-------------------|
| Gain on the disposal of the building located in Laval | \$ (2,032,476) | \$ - |
| Severance charges | - | 171,403 |
| Others | - | 52,468 |
| | \$ (2,032,476) | \$ 223,871 |
| Balance of amounts due at the beginning of the year | \$ - | \$ 56,478 |
| Amounts paid during the year | - | 56,478 |
| Balance of amounts due at the end of the year | \$ - | \$ - |

On December 21, 2007, the Corporation proceeded with the closure of its manufacturing facility located in Laval, Quebec. During the year ended December 31, 2007, the Corporation recorded charges relating to this restructuring in the amount of \$223,871, including severance charges of \$171,403. Of this amount, \$56,478 remained unpaid as at December 31, 2007. The land and building located at this facility as well as the loan related to these assets were reclassified as assets and liability held for sale as at December 31, 2007.

During 2008, the Corporation proceeded to sell the building and repay the loan (note 10).

The restructuring expenses (revenues) are related to the Accessibility business sector.

6 . WRITE OFF OF ASSETS

A) Intangible assets

In 2007, a business licence amounting to \$10,004 was written off.

B) Fixed assets

In 2007, following the closure of its plant in Laval, the Corporation booked an impairment charge for fixed assets that were no longer used in its operations in an amount of \$100,000.

Those elements were non-monetary items and had no impact on the consolidated cash flow.

7 . OTHER REVENUES AND EXPENSES

| | 2008 | 2007 |
|--|-------------------|-----------------------|
| Interest and dividend income | \$ 170,489 | \$ 284,169 |
| Gain (loss) on foreign currency exchange | 1,791,581 | (926,841) |
| Interest on long-term debt | (134,886) | (287,793) |
| Interest expense and bank charges | (201,981) | (161,452) |
| Write down of investments in ABCP (note 14) | (1,352,119) | (253,971) |
| Loss of a VIE | - | (164,141) |
| Loss on disposal of fixed assets | (46,965) | (9,322) |
| Difference between the fair value and the face value of long-term debt | 395,635 | - |
| Other revenues | 4,392 | 24,150 |
| | \$ 626,146 | \$ (1,495,201) |

8 . ACCOUNTS RECEIVABLE

| | 2008 | 2007 |
|---------------------------------|---------------------|---------------------|
| Trade in Canadian dollars | \$ 3,903,056 | \$ 3,812,643 |
| Trade in U.S. dollars | 6,235,515 | 5,532,605 |
| | 10,138,571 | 9,345,248 |
| Allowance for doubtful accounts | (1,221,371) | (782,549) |
| | 8,917,200 | 8,562,699 |
| Sales taxes recoverable | 185,087 | 302,792 |
| Others | 409,621 | 43,133 |
| | \$ 9,511,908 | \$ 8,908,624 |

9 . INVENTORIES

| | 2008 | 2007 |
|---|----------------------|---------------------|
| Raw materials and sub-assembly components | \$ 8,274,197 | \$ 8,651,892 |
| Work in process | 413,640 | 335,451 |
| Finished goods | 1,692,768 | 694,794 |
| | \$ 10,380,605 | \$ 9,682,137 |

The Corporation did not record any write-downs of its inventory during the year.

10 . ASSETS HELD FOR SALE AND CURRENT LIABILITY RELATED TO ASSETS HELD FOR SALE

Assets held for sale and a current liability related to those assets presented in the balance sheet are represented by:

| | 2008 | 2007 |
|--------------------------|------|--------------|
| Asset | | |
| Land and building | \$ - | \$ 2,846,518 |
| Liability | | |
| Debt matured in May 2008 | \$ - | \$ 3,750,000 |

On April 8, 2008, the Corporation proceeded with the sale of its building located in Laval for an amount of \$4,878,994, net of commissions, and with the repayment of the debt associated with the building on March 27, 2008 in the amount of \$3,750,000.

11 . FIXED ASSETS

| | 2008 | | |
|-------------------------|----------------------|--------------------------|---------------------|
| | Cost | Accumulated amortization | Net |
| Machinery and equipment | \$ 6,779,801 | \$ 5,915,117 | \$ 864,684 |
| Office furniture | 734,942 | 664,370 | 70,572 |
| Rolling stock | 267,612 | 156,986 | 110,626 |
| Computer hardware | 907,861 | 748,941 | 158,920 |
| Leasehold improvements | 1,419,642 | 1,052,027 | 367,615 |
| | \$ 10,109,858 | \$ 8,537,441 | \$ 1,572,417 |

As at December 31, 2008, computer hardware included assets under capital leases with a cost of \$18,639 and accumulated amortization of \$13,931.

| | 2007 | | |
|-------------------------|----------------------|--------------------------|---------------------|
| | Cost | Accumulated amortization | Net |
| Machinery and equipment | \$ 7,212,728 | \$ 6,204,019 | \$ 1,008,709 |
| Office furniture | 768,941 | 679,852 | 89,089 |
| Rolling stock | 273,705 | 111,672 | 162,033 |
| Computer hardware | 876,029 | 690,435 | 185,594 |
| Leasehold improvements | 1,308,825 | 958,091 | 350,734 |
| | \$ 10,440,228 | \$ 8,644,069 | \$ 1,796,159 |

As at December 31, 2007, computer hardware included assets under capital leases with a cost of \$63,070 and accumulated amortization of \$35,204.

12 . DEFERRED DEVELOPMENT COSTS

| | 2008 | | |
|--------------------------------------|------------|--------------------------|------------|
| | Cost | Accumulated amortization | Net |
| Deferred development costs (note 29) | \$ 950,920 | \$ 466,214 | \$ 484,706 |

12 . DEFERRED DEVELOPMENT COSTS (Cont'd)

| | 2007 | | |
|--------------------------------------|--------------|--------------------------|------------|
| | Cost | Accumulated amortization | Net |
| Deferred development costs (note 29) | \$ 1,055,483 | \$ 371,992 | \$ 683,491 |

13 . INTANGIBLE ASSETS

| | 2008 | | | 2007 |
|-----------------------------|--------------|--------------------------|--------------|--------------|
| | Cost | Accumulated amortization | Net | Net |
| Trademarks | \$ 299,932 | \$ - | \$ 299,932 | \$ 299,932 |
| Client lists | 946,568 | 307,635 | 638,933 | 733,590 |
| Software | 778,442 | 633,778 | 144,664 | 189,107 |
| Amortized intangible assets | 1,725,010 | 941,413 | 783,597 | 922,697 |
| | \$ 2,024,942 | \$ 941,413 | \$ 1,083,529 | \$ 1,222,629 |

14 . LONG-TERM INVESTMENTS

| | 2008 | 2007 |
|--|--------------|--------------|
| Third party asset-backed commercial paper (fair value \$1,780,126; 2007-\$2,719,929) | \$ 1,780,126 | \$ 2,719,929 |
| Guaranteed investment certificate (fair value \$4,100,000) | 4,100,000 | - |
| | \$ 5,880,126 | \$ 2,719,929 |

A) Third party asset-backed commercial paper

The Corporation holds investments in the amount of \$3,636,795 (US \$2,985,874) that are invested in ABCP issued by SLATE Trust and ROCKET Trust. This ABCP had a "R1-(high)" rating according to Dominion Bond Rating Service ("DBRS") and met the Corporation's investment criteria at its acquisition date. The ABCP held by the Corporation matured on various dates between August 30 and September 5, 2007. In mid-August 2007, a number of non-bank sponsors of ABCP, including those with which the Corporation had invested, announced that they could not place ABCP due to unfavourable conditions in the Canadian capital markets. As a result, there is presently no active market for the ABCP held by the Corporation.

On December 24, 2008, the Pan Canadian Investor Committee announced that the final terms of the restructuring plan had been agreed to, this confirmed to the Corporation that its ABCP would be replaced by long-term floating rate notes ("New Notes"). Therefore, as at December 31, 2008, the non-bank ABCP remained the subject of a restructuring process that was completed on January 21, 2009. The restructuring plan pooled all of the underlying assets from all the ABCP trusts with the exception of those assets designated as ineligible for pooling ("Ineligible Assets") and those series of assets backed exclusively by traditional financial assets ("Traditional Assets"). The pooled notes are principally backed by structured credit products ("Synthetic Assets").

Consequently, the Corporation's ABCP that had its assets pooled was replaced on January 21, 2009 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.

Summary of Valuation

The fair value estimate of the New Notes to be received under the restructuring has been calculated based on information provided by the Pan Canadian Investor Committee as well as Ernst & Young Inc., the Monitor of the restructuring. The table below summarizes the Corporation's valuation.

14 . LONG-TERM INVESTMENTS (Cont'd)

| Restructuring categories | thousands US \$ | | Expected maturity date |
|----------------------------------|-----------------|------------------------|------------------------|
| | Face value | Estimated fair value * | |
| MAV 2 Notes | | | |
| A1 (rated A) | 838.2 | 559.3 | July 15, 2056 |
| C | 25.9 | 3.1 | July 15, 2056 |
| Traditional asset tracking notes | | | |
| MAV 3 - Class 14 | 650.0 | 507.6 | January 1, 2021 |
| Ineligible asset tracking notes | | | |
| MAV 2 - Class 13 | 131.5 | 26.2 | March 20, 2014 |
| MAV 3 - Class 25 | 1,340.3 | 365.3 | December 25, 2036 |
| Total investments | 2,985.9 | 1,461.5 | |

* the range of fair values estimated by the Corporation varied between US \$1.64 million and US \$1.29 million

Evaluation

The Corporation has estimated the fair value of ABCP at December 31, 2008 using the following methodology and assumptions. Using available information, the Corporation determined or estimated the principal characteristics of the New Notes, including the interest rate, maturity date, and credit rating. Then, it estimated the yield that a potential investor would require in order to purchase each class of New Notes. The Corporation then used this information to calculate a net present value for each class of New Notes.

In the case of the A1, it is estimated that they will pay interest at a rate 0.5% less than the bankers' acceptance ("BA") rate and it is estimated that prospective buyers of these notes will require premium yields between 5% and 7% over the BA rate.

The Class C notes pay interest at a rate of 20 % above the BA rate. On the other hand, it isn't expected that any interest will be paid out since these notes are subordinated to the Class B notes that are, in turn, subordinated to the Class A1 and A2 notes. In light of this subordination, the Class C notes are viewed as highly speculative with regard to ultimate payment of principal at maturity in 2056. Accordingly, it is expected that Class C notes have a fair value of approximately 12% of par value.

The notes backed by traditional assets are estimated to generate interest income of 0.5% above the BA rate and a prospective buyer of those notes is estimated to require a premium of 3% over the BA rate.

The notes backed by ineligible assets are estimated to generate interest of approximately 0.5% above the BA rate and a prospective investor will require yields of between 10% and 100% in excess of the BA rate. These higher yield requirements reflect the observation that some of the underlying assets are significantly distressed in today's market.

Based upon a sensitivity analysis of the assumptions used, the expected yield required by a potential investor remains the most significant assumption included in the fair value estimate. Based on this exercise, the Corporation estimated that the range of potential values was between US \$1.64 million and US \$1.29 million. As at December 31, 2008, the fair value of the Corporation's investments in ABCP amounted to \$1,780,126 (US \$ 1,461,516) and these assets are presented on a long-term basis.

On October 15, 2007, the Corporation entered into a temporary financing agreement with its bank in order to ensure the sufficient availability of liquidity to meet its financial obligations while awaiting the settlement of the ABCP investments. The ABCP was secured for this credit facility in the amount of \$3,000,000 that was drawn in total as at December 31, 2008. The credit facility bears interest at prime rate less 1.5% and must be repaid in full at the earliest of March 31, 2009 or once the ABCP are sold. Following the replacement of the ABCP by New Notes, the Corporation's financial institution converted the temporary financing agreement into long-term debt. For this reason, the debt is presented on a long-term basis as at December 31, 2008 (note 18 and 31).

B) Guaranteed investment certificate

The Corporation holds a guaranteed investment certificate in the amount of \$4,433,945 that bears interest at a rate of 2.35% and matures on February 12, 2009. Of this amount, \$4,100,000 is presented on a long-term basis since its encashment is subject to approval of an acquisition project by the Corporation's financial institution. The balance of \$333,945 is presented among cash and cash equivalents.

15 . LONG-TERM LOANS

| | 2008 | 2007 |
|---|-------------------|------------|
| The participating long-term loan is part of an exclusive distribution agreement for the Corporation's products with a company in the United Arab Emirates. The loan was repaid in full as at December 31, 2008. | \$ - | \$ 24,783 |
| The long-term loan is part of an exclusive distribution agreement for the Corporation's products with a U.S. company. The original amount of the loan is \$243,600 (US \$200,000). The balance of the loan as at December 31, 2008 is \$170,520 (US \$140,000). The loan is without interest and is payable in ten annual instalments beginning in June 2006. | 170,520 | 158,608 |
| Amount receivable with interest at a rate of 4.23% on conversion of accounts receivable from a U.S. company. The original amount of the loan resulting from the conversion in September 2007 is \$176,610 (US \$145,000). The balance of the loan as at December 31, 2008 is \$81,115 (US \$66,597). Repayable in 29 equal monthly instalments of US \$5,250, capital and interest, starting in September 2007. | 81,115 | 124,335 |
| | 251,635 | 307,726 |
| Less: Current portion | 99,103 | 102,927 |
| | \$ 152,532 | \$ 204,799 |

Principal repayments on long-term loans during the next years are as follows:

| 2009 | 2010 | 2011 | 2012 | 2013 | 2014 and thereafter |
|-----------|-----------|-----------|-----------|-----------|---------------------|
| \$ 99,103 | \$ 30,732 | \$ 24,360 | \$ 24,360 | \$ 24,360 | \$ 48,720 |

16 . BANK LOANS

The Corporation signed an agreement with a financial institution for a \$1,500,000 line of credit for its subsidiary Van-Action (2005) Inc., bearing interest at prime rate plus 1%. A movable hypothec from Van-Action in the amount of \$3,000,000 on certain assets of the subsidiary, a guarantee pursuant to Section 427 of the Bank Act on inventories, as well as a surety bond from the parent company in the amount of \$250,000 have been pledged as securities. The balance of the line of credit amounted to \$710,000 as at December 31, 2008 (2007-\$250,000).

The Corporation also signed an agreement with a financial institution for a \$2,000,000 (2007-\$7,000,000) line of credit, bearing interest at prime rate, for its subsidiary Savaria Concord Lifts Inc. A \$9,075,000 first ranking movable hypothec and a general guarantee agreement registered in the province of Ontario on all the subsidiary's present and future inventories and receivables, and a guarantee on inventories pursuant to Section 427 of the Bank Act have been pledged as securities. As at December 31, 2008, the line of credit was unused (2007-\$690,000).

17 . ACCOUNTS PAYABLE

| | 2008 | 2007 |
|--|---------------------|--------------|
| Trade and accrued liabilities in Canadian dollars | \$ 4,549,888 | \$ 4,898,612 |
| Trade and accrued liabilities in U.S. dollars and other currencies | 899,863 | 781,873 |
| Salaries and withholding taxes | 215,333 | 576,647 |
| Vacations payable | 319,467 | 304,800 |
| | \$ 5,984,551 | \$ 6,561,932 |

18 . LONG-TERM DEBT

| | 2008 | 2007 |
|--|--------------|------|
| Loan with an original face value of \$6,000,000 and a fair value of \$5,604,365 bearing interest at prime rate minus 1%. A mortgage on the Corporation's overall assets and those of its subsidiaries Savaria Concord Lifts Inc. and Van-Action (2005) Inc. in the amount of \$6,600,000 as well as a guaranty on a long-term investment in the amount of \$4,100,000 are pledged as securities. Repayable in monthly instalments of \$90,909 plus interest, maturing in May 2014. | \$ 5,604,365 | \$ - |

18 . LONG-TERM DEBT (Cont'd)

| | 2008 | 2007 |
|---|---------------------|------------|
| Loan in original amount of \$3,000,000 bearing interest at prime rate minus 1.5%. ABCP investments valued at \$1,780,126 are pledged as security. Repayable at the earliest of March 31, 2009 or once the ABCP notes are sold on the open market. This temporary financing was converted into long-term debt of US \$3,000,000 on March 16, 2009 following the replacement of ABCP by New Notes (note 31). | \$ 3,000,000 | \$ - |
| Loan in the original amount of \$569,998 (US \$575,000). The debt was repaid early in January 2008. | - | 373,709 |
| Loan in the original amount of \$500,000. This loan is divided into two portions of \$250,000 both bearing interest at prime rate plus 2.25%. It is repayable in monthly instalments of \$10,417 plus interest, maturing in April 2010. A movable hypothec from Van-Action in the amount of \$3,000,000 on certain assets of the subsidiary, a guarantee pursuant to Section 427 of the Bank Act on inventories, as well as a surety bond from the parent company in the amount of \$250,000 have been pledged as security. | 166,666 | 291,666 |
| Obligations under capital leases with original amounts totalling \$18,639, at an interest rate of 10.8%; computer hardware with a net book value totalling \$4,708 pledged as security; repayable in monthly instalments of \$403 including principal and interest, maturing in December 2009. | 4,564 | 9,799 |
| | 8,775,595 | 675,174 |
| Less: Current portion | 1,233,454 | 244,212 |
| | \$ 7,542,141 | \$ 430,962 |

Principal repayments on long-term debt, except on obligations under capital leases, during the next years are as follows:

| 2009 | 2010 | 2011 | 2012 | 2013 |
|--------------|--------------|--------------|--------------|--------------|
| \$ 1,228,890 | \$ 1,060,641 | \$ 2,497,729 | \$ 2,540,221 | \$ 1,018,975 |

Principal repayments on obligations under capital leases during the next year is as follows:

| | |
|--|--------------|
| Year ended December 31, 2009 | \$ 4,833 |
| Less: Interest at a weighted average rate of 10.8% | <u>269</u> |
| | 4,564 |
| Less: Current portion | <u>4,564</u> |
| | <u>\$ -</u> |

19 . INCOME TAXES AND FUTURE INCOME TAXES

A) Future Income Taxes

The tax effects of temporary differences that give rise to a significant portion of the future income tax assets and liabilities are as follows:

| | 2008 | 2007 |
|---|---------------------|------------|
| CURRENT FUTURE INCOME TAX ASSETS | | |
| Foreign exchange forward contracts | \$ 1,127,347 | \$ (4,390) |
| Losses carried forward | 651,862 | 794,113 |
| Warranty provisions | 89,701 | 83,813 |
| Stock exchange listing costs | 26,907 | 26,907 |
| Non-deductible provisions | 34,698 | 15,670 |
| Investment tax credits | (8,279) | (6,407) |
| Others | 2,515 | 2,515 |
| | \$ 1,924,751 | \$ 912,221 |

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19 . INCOME TAXES AND FUTURE INCOME TAXES (Cont'd)

| | 2008 | 2007 |
|--|---------------------|---------------------|
| LONG-TERM FUTURE INCOME TAX ASSETS | | |
| Losses carried forward | \$ 1,757,912 | \$ 3,525,360 |
| Foreign exchange forward contracts | 666,865 | - |
| Inventory provision | 527,572 | 220,971 |
| Allowance for doubtful accounts | 107,920 | - |
| Warranty provisions | 148,457 | 139,380 |
| Fixed assets | 120,410 | (54,480) |
| Deferred development costs | 296,586 | 149,477 |
| Investment tax credits | (167,783) | (121,081) |
| Intangible assets | (62,972) | (135,327) |
| Difference between the fair value and the face value of long-term debt | (106,742) | - |
| Stock exchange listing costs | - | 26,907 |
| Unrealized gain on foreign exchange contracts | - | (15,212) |
| Others | 134 | 2,515 |
| Provision for devaluation of losses carried forward | (737,760) | (425,851) |
| | \$ 2,550,599 | \$ 3,312,659 |

B) Income Taxes

The Corporation's provisions for income taxes consist of the following:

| | 2008 | 2007 |
|---|---------------------|-------------------|
| Earnings before income taxes | \$ 3,158,386 | \$ 222,095 |
| Provision for income taxes computed using statutory federal-provincial tax rate of 31% (2007-33%) | \$ 978,468 | \$ 73,291 |
| Advantage of unrecognized capital losses on investment devaluation | 238,252 | - |
| Transfer of deferred losses to years having lower tax rates | 168,949 | - |
| Permanent differences | 14,270 | 88,077 |
| Non-deductible remuneration expense on options granted | 90,170 | 80,297 |
| Difference in income tax rate on tax reserves | 43,492 | - |
| Advantage of unrecognized net operating losses of subsidiaries | 40,223 | - |
| Decrease in future income taxes resulting from reduction under the 2007 federal budget and economic statement | - | 252,711 |
| Advantage of unrecognized net operating losses of a VIE | - | 54,560 |
| Others | 35,285 | (2,914) |
| | \$ 1,609,109 | \$ 546,022 |
| CURRENT AND FUTURE INCOME TAXES | | |
| Income taxes are detailed as follows: | | |
| Current | \$ 60,977 | \$ 143,794 |
| Future | 1,548,132 | 402,228 |
| | \$ 1,609,109 | \$ 546,022 |

C) Losses Carried Forward

As at December 31, 2008, the Corporation had Canadian, Quebec and Ontario net operating losses carried forward of \$6,238,000 (2007-\$11,939,000), \$5,921,000 (2007-\$12,002,000) and \$5,033,000 (2007-\$10,739,000) respectively. These losses carried forward expire at various dates between 2010 and 2028.

At this same date, the Corporation had Canadian and Quebec capital losses carried forward for which no deferred income taxes have been recognized since the losses haven't materialized on a tax basis, in the amount of \$896,000 and \$710,000 respectively. These losses can be deferred indefinitely.

As at December 31, 2008, the Corporation had United States federal and state net operating losses carried forward of \$1,164,000 (US \$956,000) and \$1,186,000 (US \$974,000) respectively. As at December 31, 2007, these amounts were \$843,000 (US \$850,000) and \$873,000 (US \$881,000) respectively. Future income taxes have not been recorded on these losses. They expire at various dates between 2014 and 2028.

20 . WARRANTY PROVISIONS

During the normal course of its business, the Corporation assumes the cost of certain components in replacement of defective components under warranties offered on its products. The warranties cover a period of thirty-six (36) months. During fiscal 2008, the Corporation increased the provision by \$55,617 (2007-decrease of \$34,673). This expense is based on past experience and is recorded as current and long-term liabilities under the heading Warranty provisions. Nevertheless, conditions may change and a significant amount may need to be recorded.

21 . VARIABLE INTEREST ENTITY

The Corporation included a VIE in the scope of its consolidation until August 21, 2008. The entity in question was held by a related party who is also an employee of the Corporation and close relative to the President. On August 22, 2008 the capital stock of this entity was transferred to the Corporation at a cost of \$216,055 representing the settlement of the net liability recorded by the Corporation at this date and the entity has been consolidated as a subsidiary since August 22, 2008. The entity is located in China and assembles parts and finished goods for the benefit of the Corporation's subsidiaries.

The effect on the balance sheet items was as follows as at December 31, 2007:

| | 2007 |
|-----------------------------|-------------------|
| Assets | |
| Cash and cash equivalents | \$ 10,236 |
| Inventories | 74,710 |
| Prepaid expenses | 111,440 |
| Fixed assets | 93,231 |
| Intangible assets | 2,146 |
| | \$ 291,763 |
| Liabilities | |
| Accounts payable | \$ 131,541 |
| Deferred income | 213,122 |
| | 344,663 |
| Shareholder's equity | |
| Contribution from a VIE | 111,241 |
| Deficit | (164,141) |
| | (52,900) |
| | \$ 291,763 |

22 . CAPITAL STOCK

A) Capital risk management:

The Corporation defines the components of its capital structure as being long-term debt, bank debt and short-term debt, net of cash and cash equivalents, temporary and long-term investments, plus shareholders' equity.

| | 2008 | 2007 |
|---|-----------------------|----------------|
| Cash and cash equivalents | \$ (5,202,780) | \$ (4,714,615) |
| Bank loans | 710,000 | 940,000 |
| Short-term debt | - | 3,000,000 |
| Current liability related to assets held for sale | - | 3,750,000 |
| Long-term debt, including current portion | 8,775,595 | 675,174 |
| Long-term investments | (5,880,126) | (2,719,929) |
| | (1,597,311) | 930,630 |
| Shareholders' equity | 17,838,948 | 22,623,088 |
| Total capital structure | \$ 16,241,637 | \$ 23,553,718 |

During the year ended December 31, 2008, the Corporation repaid a current liability related to assets held for sale while it signed a new long-term debt agreement in the amount of \$6,000,000 of which \$4,100,000 is placed in a long-term investment (note 14B).

A short-term debt in the amount of \$3,000,000 was reclassified as long-term debt as at December 31, 2008 (note 14A).

22 . CAPITAL STOCK (Cont'd)

The Corporation's objectives when managing capital are:

- to safeguard the Corporation's ability to continue as a going concern in order to provide returns to shareholders;
- to maintain the Corporation's ability to finance significant projects and strategic acquisitions;
- to redeem shares based on the Corporation's share repurchase and cancellation program.

The Corporation sets the amount of capital in proportion to risk. The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may adjust the amount of dividends paid to shareholders, issue new shares, sell assets to improve its financial performance and flexibility or change its share repurchase and cancellation program.

The Corporation monitors capital based on different financial ratios and non-financial performance indicators.

Furthermore, the Corporation must comply with certain conditions under its various banking arrangements. These requirements include, on a consolidated basis, maintaining on a quarterly basis a minimum working capital of 1.50 : 1 and maximum debt ratio of 1.50 : 1 and, on an annual basis but checked on a quarterly basis, a ratio of interest bearing debt net of cash over earnings before interest, taxes and amortization ("EBITDA") maximum of 3.90 : 1 and a minimum ratio of fixed-charges coverage of 1.10 : 1. The fixed-charges coverage ratio is defined as being EBITDA plus cash at the beginning of the year net of non-financed fixed asset additions and share repurchases for cancellation over the total of capital payments due and/or payable on long-term debt plus interest and dividends. The Corporation must also maintain at all times a minimum loan value of \$4,500,000. The loan value is defined as being the total value of 75% of Canadian trade receivables, 65% of US trade receivables and 50% of inventory net of trade liabilities under 30 days, up to a maximum amount of \$2,500,000.

For its Savaria Concord Lifts Inc. subsidiary, requirements include maintaining on a quarterly basis a minimum working capital ratio of 1.10 : 1 and a maximum debt-to-equity ratio of 2.50 : 1. The total amount drawn on the line of credit cannot exceed the total value of 75% of Canadian trade receivables, 65% of US trade receivables, 50% of raw materials and 35% of finished goods.

As for its Van-Action (2005) Inc. subsidiary, it must maintain on a quarterly basis a minimum working capital of \$1,200,000 and a maximum debt-to-equity ratio of 2 : 1 and, on an annual basis, a minimum debt service coverage ratio of 1.25 : 1. The debt to equity ratio is defined as being the total of EBITDA plus rent expense and payments under operating leases minus income taxes paid and additions to fixed assets divided by the sum of capital plus interest, rent expense and payments under operating and capital leases. The maximum amount that the subsidiary may draw from its line of credit is the lower of \$1,500,000 and the total value of 90% of its Canadian trade receivables that benefit from government grants, 80% of all other Canadian trade receivables, net of warranty claims, 80% of Swedish trade receivables, 40% of raw materials net of trade liabilities under 30 days and 50% of vehicles with a maximum value of \$350,000.

The Corporation is in compliance with all of the ratio requirements of its lenders.

B) Authorized :

Unlimited number of common shares with voting rights, participating and without par value

Unlimited number of first preferred shares without par value and issuable in series

Unlimited number of second preferred shares without par value and issuable in series

On September 14, 2005, the Corporation issued 4,249,984 common shares at \$1.40 per share in order to acquire Savaria Concord Lifts Inc.. The cost per share was based on the market price that applied on the date of the acquisition but which was discounted to reflect a two-year sales restriction, one third of which was freed up in September 2007, a second third in September 2008 and the last third will be freed up in September 2009. Of the total shares issued, 133,234 shares at \$1.50 per share are still under escrow to protect the Corporation against potential lawsuits or payments arising from events prior to the date of acquisition.

In 2007, the Corporation issued 475,000 common shares following the exercise of stock options at \$1 per share; in consideration, a long-term loan in the amount of \$250,000 was issued to a director who is also an employee, generating a net cash flow of \$225,000. The long-term loan is classified as a reduction of capital stock and the number of issued stock options was increased by 250,000 options (note 25). A remuneration expense of \$68,097 (2007-\$107,821) was calculated for these options, considered as outstanding, and accounted for in Selling and administrative Expenses. Contingent loan repayments will result in a corresponding increase in capital stock and consequently the number of options outstanding will be reduced. The loan bears interest at an annual rate of 5% and is secured by 200,000 common shares of the Corporation having a market value of \$100,000 as at December 31, 2008. Interest is payable on an annual basis while capital is due at maturity on February 23, 2010.

22 . CAPITAL STOCK (Cont'd)

Issued :

| 2008 | Common shares | |
|---|---------------|---------------|
| | Number | Amount |
| Balance as at December 31, 2007, before the reversal of an exercise of stock options following the issuance of an employee loan | 28,162,414 | \$ 16,199,915 |
| Reversal of an exercise of stock options following the issuance of an employee loan | (250,000) | (250,000) |
| Balance as at December 31, 2007 | 27,912,414 | 15,949,915 |
| Cancelled following issuer bid | (671,900) | (383,938) |
| Balance as at December 31, 2008 | 27,240,514 | \$ 15,565,977 |

| 2007 | Common shares | |
|---|---------------|---------------|
| | Number | Amount |
| Balance as at December 31, 2006 | 28,598,414 | \$ 16,244,789 |
| Exercise of stock options | 475,000 | 475,000 |
| Cancelled following issuer bid | (911,000) | (519,874) |
| | 28,162,414 | 16,199,915 |
| Reversal of an exercise of stock options following the issuance of an employee loan | (250,000) | (250,000) |
| Balance as at December 31, 2007 | 27,912,414 | \$ 15,949,915 |

C) The following table reconciles the average number of shares outstanding with the calculation of the basic and diluted net earnings per share:

| | 2008 | 2007 |
|---|------------|------------|
| Weighted average number of shares outstanding | 27,298,997 | 28,283,564 |
| Effect of potential dilutive securities | | |
| Stock options | - | 87,312 |
| Weighted average number of shares outstanding for use in determining diluted earnings per share | 27,298,997 | 28,370,876 |

In calculating net diluted earnings (loss) per share for 2008 and 2007, 2,048,000 and 1,157,500 stock options were excluded due to their antidilutive effect.

23 . CONTRIBUTED SURPLUS

| | 2008 | 2007 |
|---|--------------|--------------|
| Balance - beginning of year | \$ 1,539,901 | \$ 1,297,822 |
| Remuneration expense on options granted | 205,990 | 242,079 |
| Balance - end of year | \$ 1,745,891 | \$ 1,539,901 |

24 . ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

| | 2008 | 2007 |
|---|----------------|-------------|
| Balance - beginning of year, net of income taxes of \$4,390 (2007-\$43,095) | \$ 9,619 | \$ (86,828) |
| Changes in other comprehensive income in the current year, net of income taxes of \$1,798,602 (2007-\$47,485) | (4,078,726) | 96,447 |
| Unrealized gains (losses) on foreign exchange contracts designated as cash flow hedges, net of income taxes of \$1,794,212 (2007-\$4,390) | \$ (4,069,107) | \$ 9,619 |

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25 . STOCK-BASED COMPENSATION PLAN

According to a stock option agreement for certain employees and directors of the Corporation, the Board of Directors may, at its discretion but without exceeding 1,792,659 shares, grant them options to purchase common shares of the Corporation at an exercise price established by the Board. The exercise price is the closing price of the day preceeding the options grant. Options generally vest between one and five years from the date of grant and must be exercised within a maximum of six years, except in the event of retirement, termination of employment or death. The value of each option is estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

| 2008 | | | | |
|---------------------------|-------------------------|----------------|---------------------|---------------------|
| Number of options granted | Risk-free interest rate | Dividend yield | Expected volatility | Expected term |
| 60 000 | 3.99% | 2.26% | 38% | 5 years |
| 75 000 | 2.92% | 2.26% | 38% | 3 years |
| 700 000 | 3.31% | 2.26% | 38% | 6 years |
| 50 000 | 3.18% | 2.26% | 38% | 5 years |
| Total 885 000 | 3.32% | 2.26% | 38% | 3 to 6 years |

| 2007 | | | | |
|---------------------------|-------------------------|----------------|---------------------|---------------------|
| Number of options granted | Risk-free interest rate | Dividend yield | Expected volatility | Expected term |
| 79 000 | 4.22% | 3,99% | 35% | 3 years |
| 50 000 | 4.22% | 3,99% | 35% | 5 years |
| 100 000 | 4.50% | 3,99% | 35% | 3 years |
| 100 000 | 4.62% | 3,99% | 35% | 5 years |
| 100 000 | 3.87% | 3,99% | 35% | 5 years |
| 250 000 | 4.23% | 3,99% | 35% | 3 years |
| Total 679 000 | 4.27% | 3,99% | 35% | 3 to 5 years |

The estimated fair value of the options granted in 2008 is \$275,592 (2007-\$442,226). This amount is amortized and charged to earnings as the rights to exercise are vested.

The remuneration expense in the amount of \$205,990 (2007-\$242,079) on options granted to employees and directors has been credited to contributed surplus.

| | 2008 | | 2007 | |
|------------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Outstanding-beginning of year | 1,517,500 | \$ 1.70 | 1,491,500 | \$ 1.60 |
| Granted | 885,000 | 0.97 | 429,000 | 1.79 |
| Exercised | - | n/a | (225,000) | 1.00 |
| Expired | (354,500) | 2.03 | (178,000) | 2.00 |
| Outstanding-end of year | 2,048,000 | \$ 1.33 | 1,517,500 | \$ 1.70 |
| Exercisable at the end of the year | 920,250 | \$ 1.53 | 1,004,667 | \$ 1.65 |

25 . STOCK-BASED COMPENSATION PLAN (Cont'd)

The following table summarizes certain information on stock options in process as at December 31:

| 2008 | | | | 2007 | | | |
|-------------------------|---------------------|------------------------------------|---------------------|-------------------------|---------------------|------------------------------------|---------------------|
| Exercise price | Options outstanding | | Options exercisable | Exercise price | Options outstanding | | Options exercisable |
| | Number | Weighted average years to maturity | | | Number | Weighted average years to maturity | |
| 0,95 | 750,000 | 5.5 years | - | 1,00 | 250,000 | 2.1 years | 250,000 |
| 1,00 | 250,000 | 1.1 year | 250,000 | 1,35 | 100,000 | 4.9 years | - |
| 1,06 | 75,000 | 2.2 years | 56,250 | 1,59 | 100,000 | 4.6 years | - |
| 1,10 | 60,000 | 4.1 years | - | 1,60 | 60,000 | 2.9 years | 21,667 |
| 1,35 | 100,000 | 3.9 years | 25,000 | 1,65 | 50,000 | 3.7 years | 12,500 |
| 1,59 | 100,000 | 3.6 years | 25,000 | 1,70 | 100,000 | 1.2 year | 100,000 |
| 1,60 | 60,000 | 1.9 year | 24,167 | 1,75 | 225,000 | 1.4 year | 225,000 |
| 1,65 | 50,000 | 2.7 years | 25,000 | 1,80 | 25,000 | 3.5 years | - |
| 1,70 | 100,000 | 0.2 year | 100,000 | 1,96 | 100,000 | 2.2 years | 75,000 |
| 1,75 | 225,000 | 0.4 year | 225,000 | 2,00 | 344,500 | 1.7 year | 274,500 |
| 1,80 | 25,000 | 2.5 years | 8,333 | 2,07 | 41,000 | 0.7 year | 41,000 |
| 1,96 | 100,000 | 1.2 year | 100,000 | 2,15 | 117,000 | 2.9 years | - |
| 2,00 | 70,000 | 1.9 year | 52,500 | 2,50 | 5,000 | 0.6 year | 5,000 |
| 2,15 | 83,000 | 2.2 years | 29,000 | n/a | n/a | n/a | n/a |
| \$0.95 to \$2.15 | 2,048,000 | 3.2 years | 920,250 | \$1.00 to \$2.50 | 1,517,500 | 2.3 years | 1,004,667 |

26 . RELATED PARTY TRANSACTIONS

The Corporation recorded an amount of \$88,310 (2007-\$59,600) for services rendered by an entity whose officer is a director and Chief financial officer of the Corporation. The transactions occurred in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

On August 22, 2008, the Corporation paid an amount of \$216,055 to an employees and close relative to the President relating to the transfer of the capital of a VIE (note 21). The transaction was completed at cost and assets and liabilities were not re-evaluated.

27 . COMMITMENTS AND CONTINGENCIES

A) Commitments

The Corporation concluded lease agreements for the rental of its premises and entered into operating leases for rolling stock and equipment for a total of \$6,076,294 (2007-\$6,928,616). Future minimum lease payments under these operating leases, as at December 31, 2008, are as follows:

2009 - \$1,809,885 2010 - \$1,832,168 2011 - \$1,406,233 2012 - \$976,411 2013 - \$51,597

The Corporation has committed itself with one of its suppliers to purchase a minimum number of scooters of 1,100 in 2009 and 1,200 in 2010 in order to retain its exclusive right to sell these products.

B) Contingencies

Various claims and legal proceedings have been initiated against the Corporation in the normal course of its operating activities. 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 substantial negative impact on the Corporation's consolidated financial statements.

28 . FINANCIAL INSTRUMENTS

Fair value

Classification of financial instruments

Financial instruments, other than derivative financial instruments designated as hedging, as well as their carrying amount and fair value as at December 31, 2008 and 2007 are detailed in the tables below.

Fair value of financial instruments

As at December 31, 2008, the carrying amount of current financial assets primarily composed of trade and other receivables, and short-term financial liabilities approximate their fair value given that they are expected to be realized in the short term.

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28 . FINANCIAL INSTRUMENTS (Cont'd)

The carrying amount of long-term financial assets classified as loans and receivables consisting primarily of long-term loans differ slightly from their fair value since they do not bear interest at current going rates.

The carrying amount of long-term investments in ABCP classified as held to maturity approximate their fair value given that a permanent impairment was recognized in 2007 and in 2008.

The carrying amount of long-term investments other than ABCP classified as held to maturity approximate their fair value given that they mature in the short-term (note 14B).

The carrying amount of other financial liabilities approximate their fair value given that they are subject to terms, including variable interest rates, similar to those that the Corporation could obtain for instruments with similar terms with the exception of a debt in the amount of \$6,000,000 that was re-evaluated at its fair value of \$5,604,365, because of its favourable interest rate.

Transaction costs related to financial assets and liabilities held for trading are expensed as incurred. Transaction costs related to financial assets held to maturity, loans and receivables and other liabilities are included in the carrying value of the asset or liability and are then amortized over the expected life of the instrument using the effective interest rate method.

| 2008 | Carrying amount | | | | Fair value |
|---------------------------------------|------------------|---------------------|---|----------------------|----------------------|
| | Held-for-trading | Held to maturity | Loans and receivables and Other liabilities | Total | |
| Financial assets | | | | | |
| Cash and Cash equivalents | \$ 5,202,780 | \$ - | \$ - | \$ 5,202,780 | \$ 5,202,780 |
| Trade and other receivables | - | - | 9,326,821 | 9,326,821 | 9,326,821 |
| Long-term loans | - | - | 251,635 | 251,635 | 202,674 |
| Long-term investments in ABCP | - | 1,780,126 | - | 1,780,126 | 1,780,126 |
| Long-term investments other than ABCP | - | 4,100,000 | - | 4,100,000 | 4,100,000 |
| | 5,202,780 | \$ 5,880,126 | \$ 9,578,456 | \$ 20,661,362 | \$ 20,612,401 |
| Financial liabilities | | | | | |
| Bank loans | \$ - | \$ - | \$ 710,000 | \$ 710,000 | \$ 710,000 |
| Accounts payable | - | - | 5,984,551 | 5,984,551 | 5,984,551 |
| Long-term debt | - | - | 8,775,595 | 8,775,595 | 8,775,595 |
| | \$ - | \$ - | \$ 15,470,146 | \$ 15,470,146 | \$ 15,470,146 |

| 2007 | Carrying amount | | | | Fair value |
|---|---------------------|------------------|---|----------------------|----------------------|
| | Held-for-trading | Held to maturity | Loans and receivables and Other liabilities | Total | |
| Financial assets | | | | | |
| Cash and Cash equivalents | \$ 4,714,615 | \$ - | \$ - | \$ 4,714,615 | \$ 4,714,615 |
| Trade and other receivables | - | - | 8,605,832 | 8,605,832 | 8,605,832 |
| Long-term loans | - | - | 307,726 | 307,726 | 245,311 |
| Long-term investments in ABCP | 2,719,929 | - | - | 2,719,929 | 2,719,929 |
| | \$ 7,434,544 | \$ - | \$ 8,913,558 | \$ 16,348,102 | \$ 16,285,687 |
| Financial liabilities | | | | | |
| Bank loans | \$ - | \$ - | \$ 940,000 | \$ 940,000 | \$ 940,000 |
| Current liability related to assets held for sale | - | - | 3,750,000 | 3,750,000 | 3,750,000 |
| Accounts payable | - | - | 6,561,932 | 6,561,932 | 6,561,932 |
| Long-term debt | - | - | 675,174 | 675,174 | 686,308 |
| | \$ - | \$ - | \$ 11,927,106 | \$ 11,927,106 | \$ 11,938,240 |

Financial risk factors

The Corporation's activities expose it to a variety of financial risks : market risks (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. In order to minimize the potential adverse effects on the Corporation's financial performance, the Corporation uses derivative financial instruments to hedge certain risk exposures. Treasury is managed centrally to allow for identification, evaluation and hedging of financial risks.

SAVARIA CORPORATION

 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2008 AND 2007

28 . FINANCIAL INSTRUMENTS (Cont'd)
A) Market risks
Currency risk

The Corporation realizes approximately 59% (2007-58%) of its sales in foreign currencies and accordingly is exposed to market risks related to foreign exchange fluctuations. The Corporation partially compensates for these risks by purchasing materials in U.S. dollars and by using derivative financial instruments such as forward foreign exchange contracts. Those 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 its 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 important foreign currency fluctuations and to avoid management speculation on currency values. The Corporation manages this risk exposure by entering into various foreign exchange forward contracts. According to the policy, a maximum of 75% of anticipated net inflows in U.S. dollars must be hedged.

The Corporation has at its disposal a line of treasury in the amount of \$15,000,000 in order to cover foreign exchange risks associated with its forward foreign exchange contracts.

The following table summarizes the Corporation's commitments to sell foreign currencies as at December 31:

| 2008 | | | |
|-----------------|------|-----------------------|---------------------------------------|
| Maturity | Type | Average exchange rate | Contractual amounts (in U.S. dollars) |
| 0 to 12 months | Sale | 1,0708 | \$25,700,000 |
| 12 to 24 months | Sale | 1,1093 | 24,000,000 |
| 24 to 36 months | Sale | 1,1910 | 6,000,000 |
| | | 1,1004 | \$55,700,000 |

| 2007 | | | |
|----------------|------|-----------------------|---------------------------------------|
| Maturity | Type | Average exchange rate | Contractual amounts (in U.S. dollars) |
| 0 to 12 months | Sale | 0,9935 | \$6,000,000 |

The fair value of derivative financial instruments generally reflects the estimated amounts that the Corporation would pay or receive upon settlement of the contracts at year-end.

The fair value of the financial instruments which are presented as "Accumulated other comprehensive income" is as follows as at December 31:

| | 2008 | 2007 |
|---|----------------|-----------|
| Unrealized gains (losses) on forward exchange contracts | \$ (6,091,319) | \$ 14,009 |
| Less: portion relating to forward exchange contracts maturing in the short term | (3,714,953) | 14,009 |
| | \$ (2,376,366) | \$ - |

As at December 31, 2008, with other variables unchanged, a \$0.01 strengthening (weakening) of the Canadian dollar against the US dollar would have a favourable (unfavourable) impact on comprehensive income's "Unrealized gains (losses) on forward exchange contracts" in the amount of \$518,000 (2007-\$64,000).

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.

Gains and losses on financial instruments are recognized as follows in the financial statements:

| | 2008 | 2007 |
|---|-------------|--------------|
| Gains on foreign exchange from foreign exchange forward contracts | \$ - | \$ 225,280 |
| Gains (losses) on foreign currency exchange on U.S. dollar monetary balances | 1,791,581 | (1,152,121) |
| Total gains (losses) on foreign currency exchange recognized as "Other Revenues and Expenses" | 1,791,581 | (926,841) |
| Gains (losses) on foreign currency exchange from hedging relationships recognized as "Sales" | (1,155,997) | 410,964 |
| | \$ 635,584 | \$ (515,877) |

28 . FINANCIAL INSTRUMENTS (Cont'd)

The Corporation does not hold or issue any derivative financial instruments for speculative or trading purposes. Derivative financial instruments are subject to standard credit conditions, financial controls, risk management as well as monitoring procedures.

Impact of US dollar foreign exchange risk on monetary items denominated in US dollars:

(in US dollars)

| | 2008 | 2007 |
|--|--------------|--------------|
| Cash and cash equivalents | \$ 469,248 | \$ 1,568,658 |
| Accounts receivable | 5,098,538 | 4,955,352 |
| Long-term loans, including current portion | 206,597 | 310,467 |
| Accounts payable | (395,695) | (692,163) |
| Long-term debt, including current portion | - | (376,989) |
| Total monetary items denominated in US dollars | \$ 5,378,688 | \$ 5,765,325 |

As at December 31, 2008, with other variables unchanged, a \$0.01 strengthening (weakening) of the Canadian dollar against the US dollar would have an unfavourable (favourable) impact on "Other revenues and expenses" in the amount of \$54,000 (2007-\$58,000).

Interest rate risk

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 cash flow interest rate risk, while investments and borrowings issued at fixed rates expose the Corporation to fair value interest rate risk.

The Corporation has at its disposal a line of treasury in the amount of \$600,000 in case it chooses to convert its variable interest rate on long-term debt in the amount of \$6,000,000 to a fixed rate debt.

The Corporation analyses its interest risk exposure on a continual basis and examines its renewal and refinancing options in order to minimize risks.

The Corporation's exposure to interest rate risk is as follows:

| | |
|----------------------------------|--------------------------------------|
| Cash CA\$ | Prime rate less 2.25% |
| Cash US\$ | Prime rate less 4.50% |
| Accounts receivable | Non-interest bearing |
| Long-term investments | Note 14 B |
| Long-term loans to United States | Note 15 |
| Accounts payable | Non-interest bearing |
| Bank loans | Prime rate and prime rate plus 1.00% |
| Long-term debt | Note 18 |

Impact of interest rate risks on monetary items with a variable interest rate:

| | 2008 | 2007 |
|---|------------------|------------------|
| Cash and cash equivalents | \$ (5,202,780) | \$ (4,714,615) |
| Long-term investments (guaranteed investment certificate) | (4,100,000) | - |
| Bank loans | 710,000 | 940,000 |
| Short-term debt | - | 3,000,000 |
| Long-term debt, including current portion | 8,771,031 | 291,666 |
| Total monetary items with a variable interest rate | \$ 178,251 | \$ (482,949) |

As at December 31, 2008, with other variables unchanged, a 1% increase (decrease) in the prime rate would have an unfavourable (favourable) impact on "Other revenues and expenses" in the amount of \$2,000 (December 31, 2007:-\$5,000) on an annual basis.

Price risk

The Corporation's products include 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.

28 . FINANCIAL INSTRUMENTS (Cont'd)

B) Credit risk

Cash and cash equivalents are held or issued by "high-credit quality" financial institutions. Therefore, the Corporation considers that the risk of non-performance of those instruments is negligible.

ABCP investments are subject to uncertainty as to their eventual cash value (note 14).

Foreign currencies for which the Corporation has committed itself to sell present a risk in that the Corporation must dispose of sufficient foreign currency to meet the deadlines of its foreign exchange contracts.

The Corporation provides credit to its customers in the normal course of business. It carries out credit checks on its customers on a continual basis and minimizes its credit risks by conducting its operations with a wide variety of customers 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 doubtful accounts. Uncertainty regarding the collection of accounts may derive from various indicators including a deterioration in the credit-worthiness of a customer or an abnormal delay in payment of past-due invoices. Management regularly reviews customer accounts, ensures that past-due accounts are followed up and evaluates the relevance of its allowance for doubtful accounts.

As at December 31, 2008, trade receivables were classified in the following chronological order:

| | |
|---|---------------|
| Current accounts | \$ 3,784,312 |
| Past due accounts, less than 30 days | 2,587,570 |
| Past due accounts, between 31 and 60 days | 1,474,566 |
| Past due accounts, over 60 days | 2,292,123 |
| | \$ 10,138,571 |

The following table shows how the allowance for doubtful accounts changed since December 31, 2007:

| | |
|---|--------------|
| Allowance for doubtful accounts as at December 31, 2007 | \$ 782,549 |
| Increase in allowance | 780,986 |
| Write-off of accounts | (342,164) |
| Allowance for doubtful accounts as at December 31, 2008 | \$ 1,221,371 |

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

C) 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 level on a continual basis to assure itself that it has sufficient liquidity to meet its obligations. In order to insure that sufficient liquidity is available to meet current obligations, the Corporation maintains similar payment terms with its customers as it has with its suppliers. The Corporation has sufficient credit facilities available to make up for temporary lapses in synchronization of inflows and outflows of funds.

As at December 31, 2008, the Corporation had at its disposal working capital of \$16,078,000 (December 31, 2007-\$10,389,000) and unused credit facilities of \$2,790,000 (December 31, 2007-\$7,560,000).

The following are the contractual obligations of financial liabilities as at December 31, 2008.

| | Carrying amount | Contractual cash flows | 0 to 6 months | 6 to 12 months | 12 to 24 months | More than 24 months |
|---|-----------------|------------------------|---------------|----------------|-----------------|---------------------|
| Bank loans | \$ 710,000 | \$ 823,600 | \$ 14,200 | \$ 14,200 | \$ 28,400 | \$ 766,800 |
| Accounts payable | 5,984,551 | 5,984,551 | 5,984,551 | - | - | - |
| portion | 8,775,595 | 9,689,323 | 792,047 | 699,488 | 1,291,130 | 6,906,658 |
| Derivatives related to foreign exchange contracts | 6,091,319 | 6,091,319 | 1,897,092 | 1,817,860 | 2,315,723 | 60,644 |
| | \$ 21,561,465 | \$ 22,588,793 | \$ 8,687,890 | \$ 2,531,548 | \$ 3,635,253 | \$ 7,734,102 |

29 . GOVERNMENT ASSISTANCE

During 2008, the Corporation recorded research and development tax credits of \$625,898 (2007-\$603,821). These credits, of which \$169,218 has not yet been assessed by the tax authorities, were accounted for as follows:

| | 2008 | 2007 |
|---|-------------------|-------------------|
| Decrease in deferred development costs | \$ 425,548 | \$ 452,767 |
| Decrease in selling and administrative expenses | 200,350 | 151,054 |
| | \$ 625,898 | \$ 603,821 |

30 . SEGMENTED INFORMATION

The Corporation's business structure is divided into two sectors: the first consists of manufacturing and distributing residential and commercial accessibility equipment for people with mobility challenges (accessibility), and the second consists of converting and adapting vehicles for persons with a physical disability (adapted transport).

The accounting policies used for these reportable segments are consistent with those described in the summary of significant accounting policies.

The business sectors are detailed as follows:

| | 2008 | | | 2007 | | |
|---------------------------|---------------|-------------------|----------------------|---------------|-------------------|---------------|
| | Accessibility | Adapted Transport | Total | Accessibility | Adapted Transport | Total |
| Sales | \$ 45,982,363 | \$ 8,730,713 | \$ 54,713,076 | \$ 48,907,992 | \$ 8,611,698 | \$ 57,519,690 |
| Operating earnings | 2,303,796 | 228,444 | 2,532,240 | 1,539,758 | 177,538 | 1,717,296 |
| Net earnings (losses) | 1,353,156 | 196,121 | 1,549,277 | (435,257) | 111,330 | (323,927) |
| Assets | 36,921,327 | 3,762,145 | 40,683,472 | 35,850,122 | 2,839,112 | 38,689,234 |
| Amortization | 744,063 | 52,152 | 796,215 | 913,926 | 49,975 | 963,901 |
| Additions to fixed assets | 192,646 | 13,898 | 206,544 | 206,190 | 9,920 | 216,110 |

Information by geographic region is as follows:

| | Sales | | Fixed assets, intangible assets and goodwill | |
|----------------------|----------------------|----------------------|--|-------------------|
| | 2008 | 2007 | 2008 | 2007 |
| | United States | \$ 29,219,541 | \$ 30,912,313 | \$ 448,627 |
| Canada | 21,975,687 | 22,887,455 | 2,727,742 | 3,076,391 |
| Europe and elsewhere | 3,517,848 | 3,719,922 | - | - |
| | \$ 54,713,076 | \$ 57,519,690 | \$ 3,176,369 | \$ 3,525,018 |

31 . SUBSEQUENT EVENT

On March 16, 2009, the Corporation entered into two agreements with its financial institution whereby a temporary financing agreement in the amount of \$3,000,000 was converted to long-term debt. The first agreement for a total amount of US\$1,514,083 matures in March 2012 and is renewable for periods of one year with a maximum of four renewal periods. The second agreement for a total amount of US\$1,471,791 matures in March 2011 and is renewable for periods of one year with a maximum of five renewal periods. Both loans, for which only the interest is payable on a monthly basis, bear interest at the US prime rate minus 1% and ABCP investments are pledged as security.

Following the restructuring of ABCP investments, a financial instrument will be recognized as at March 31, 2009 in an amount of to be determined, representing the gain between the face value of one portion of the second loan above and the fair value of the ABCP investments securing this portion of the loan.

32 . COMPARATIVE FIGURES

Certain figures for the previous year have been reclassified to conform to the presentation adopted for the year ended December 31, 2008.