

**SAVARIA CORPORATION**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**AS AT SEPTEMBER 30, 2014**  
**(Unaudited and not reviewed by the Corporation's independent auditors)**

**SAVARIA CORPORATION**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
*(in thousands of dollars - Unaudited)*

	Note	September 30, 2014	December 31, 2013
<b>Assets</b>			
<b>Current assets</b>			
Cash		\$ 14,705	\$ 1,968
Trade and other receivables		13,371	11,711
Current portion of long-term loans		107	111
Tax credits receivable		89	394
Inventories		16,687	14,179
Prepaid expenses		644	537
<b>Total current assets</b>		<b>45,603</b>	<b>28,900</b>
<b>Non-current assets</b>			
Tax credits receivable		-	14
Long-term loans		76	78
Fixed assets		11,968	12,302
Intangible assets		1,408	1,679
Goodwill		4,051	4,051
Goodwill and intangible assets acquired	4	4,490	-
Deposit on purchase of intangible assets		-	29
Deferred tax assets		2,828	1,960
<b>Total non-current assets</b>		<b>24,821</b>	<b>20,113</b>
<b>Total assets</b>		<b>\$ 70,424</b>	<b>\$ 49,013</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		\$ 9,815	\$ 7,413
Income taxes payable		1,054	775
Deferred revenues		1,840	1,584
Derivative financial instruments	10	1,745	1,113
Current portion of long-term debt		2,810	2,864
Warranty provisions		444	402
<b>Total current liabilities</b>		<b>17,708</b>	<b>14,151</b>
<b>Non-current liabilities</b>			
Long-term debt		12,855	12,731
Warranty provisions		665	598
Derivative financial instruments	10	2,080	1,146
Deferred tax liabilities		203	154
<b>Total non-current liabilities</b>		<b>15,803</b>	<b>14,629</b>
<b>Total liabilities</b>		<b>33,511</b>	<b>28,780</b>
<b>Equity</b>			
Share capital	6	33,268	13,969
Contributed surplus		2,005	2,079
Accumulated other comprehensive loss		(2,538)	(1,314)
Retained earnings		4,178	5,499
<b>Total equity</b>		<b>36,913</b>	<b>20,233</b>
<b>Total liabilities and equity</b>		<b>\$ 70,424</b>	<b>\$ 49,013</b>

The notes on pages 7 to 16 are an integral part of these unaudited condensed consolidated interim financial statements.

**SAVARIA CORPORATION**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
*(in thousands of dollars, except per share amounts - Unaudited)*

		Periods of three months ended September 30,		Periods of nine months ended September 30,	
	Note	2014	2013	2014	2013
<b>Revenue</b>	7	\$ 21,747	\$ 20,019	\$ 61,412	\$ 56,619
<b>Cost of sales</b>		(14,955)	(14,095)	(42,743)	(39,848)
<b>Gross margin</b>		6,792	5,924	18,669	16,771
<b>Operating costs</b>					
Administrative expenses		(1,951)	(1,482)	(5,256)	(4,802)
Selling expenses		(1,715)	(1,370)	(4,765)	(4,107)
Engineering expenses		(583)	(544)	(1,711)	(1,570)
Research and development expenses		(135)	(110)	(476)	(496)
		(4,384)	(3,506)	(12,208)	(10,975)
Other income		-	2	-	338
<b>Operating income</b>		2,408	2,420	6,461	6,134
Finance income	8	424	8	466	209
Finance costs	8	(203)	(320)	(534)	(568)
<b>Net finance income (costs)</b>		221	(312)	(68)	(359)
<b>Income before income tax</b>		2,629	2,108	6,393	5,775
Income tax expense		(703)	(591)	(1,716)	(1,601)
<b>Net income</b>		1,926	1,517	4,677	4,174
<b>Other comprehensive income</b>					
Items that may be reclassified subsequently to income or loss					
Change in the fair value of derivative financial instruments designated as cash flow hedges		(2,499)	1,167	(2,700)	(797)
Deferred income tax		631	(294)	683	199
		(1,868)	873	(2,017)	(598)
Losses (gains) on foreign exchange contracts transferred to net income in the current period		280	28	957	(111)
Deferred income tax		(71)	(7)	(242)	28
		209	21	715	(83)
Net change in fair value of derivative financial instruments designated as cash flow hedges		(1,659)	894	(1,302)	(681)
Unrealized net gains (losses) on translation of financial statements of foreign operations		130	(29)	78	69
<b>Other comprehensive income (loss), net of income tax</b>		(1,529)	865	(1,224)	(612)
<b>Total comprehensive income</b>		\$ 397	\$ 2,382	\$ 3,453	\$ 3,562
<b>Earnings per share:</b>					
Basic		\$ 0.07	\$ 0.07	\$ 0.17	\$ 0.18
Diluted		\$ 0.06	\$ 0.07	\$ 0.17	\$ 0.18

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**SAVARIA CORPORATION**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
Period of nine months ended September 30,  
*(in thousands of dollars - Unaudited)*

	2013					
	Share capital		Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total equity
	Number	Amount				
<b>Balance at January 1, 2013</b>	<b>22,909,564</b>	<b>\$ 13,313</b>	<b>\$ 2,141</b>	<b>\$ 306</b>	<b>\$ 3,464</b>	<b>\$ 19,224</b>
<b><u>Total comprehensive income</u></b>						
<b>Net Income</b>	-	-	-	-	4,174	<b>4,174</b>
<b>Other comprehensive income :</b>						
Change in the fair value of derivative financial instruments designated as cash flow hedges, net of tax	-	-	-	(598)	-	<b>(598)</b>
Gains on foreign exchange contracts transferred to net income in the current period, net of tax	-	-	-	(83)	-	<b>(83)</b>
Unrealized net gains on translation of financial statements of foreign operations	-	-	-	69	-	<b>69</b>
<b>Other comprehensive loss</b>	-	-	-	(612)	-	<b>(612)</b>
<b>Total comprehensive (loss) income</b>	-	\$ -	\$ -	\$ (612)	\$ 4,174	<b>\$ 3,562</b>
<b><u>Transactions with owners, recorded directly in equity</u></b>						
Cancelled shares following issuer bid	(6,200)	(4)	-	-	(6)	<b>(10)</b>
Compensation expense on options granted	-	-	28	-	-	<b>28</b>
Share options exercised (note 6)	507,500	660	(98)	-	-	<b>562</b>
Dividend on common shares	-	-	-	-	(2,789)	<b>(2,789)</b>
<b>Total transactions with owners</b>	<b>501,300</b>	<b>656</b>	<b>(70)</b>	<b>-</b>	<b>(2,795)</b>	<b>(2,209)</b>
<b>Balance at September 30, 2013</b>	<b>23,410,864</b>	<b>\$ 13,969</b>	<b>\$ 2,071</b>	<b>\$ (306)</b>	<b>\$ 4,843</b>	<b>\$ 20,577</b>

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**SAVARIA CORPORATION**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
Period of nine months ended September 30,  
*(in thousands of dollars - Unaudited)*

	2014						
	Share capital and warrants			Contributed surplus	Accumulated other comprehensive (loss) income	Retained earnings	Total equity
	Number		Amount				
	Share capital	Warrants					
<b>Balance at January 1, 2014</b>	23,410,864	-	\$ 13,969	\$ 2,079	\$ (1,314)	\$ 5,499	\$ 20,233
<b><u>Total comprehensive income</u></b>							
<b>Net income</b>	-	-	-	-	-	4,677	4,677
<b>Other comprehensive income :</b>							
Change in the fair value of derivative financial instruments designated as cash flow hedges, net of tax	-	-	-	-	(2,017)	-	(2,017)
Losses on foreign exchange contracts transferred to net income in the current period, net of tax	-	-	-	-	715	-	715
Unrealized net gains on translation of financial statements of foreign operations	-	-	-	-	78	-	78
<b>Other comprehensive loss</b>	-	-	-	-	(1,224)	-	(1,224)
<b>Total comprehensive (loss) income</b>	-	-	\$ -	\$ -	\$ (1,224)	\$ 4,677	\$ 3,453
<b><u>Transactions with owners, recorded directly in equity</u></b>							
Shares and warrants issued in relation to a private placement (note 6)	5,750,000	2,875,000	18,688	-	-	-	18,688
Share and warrant issue costs, net of tax (note 6)	-	-	-	-	-	(835)	(835)
Compensation expense on options granted	-	-	-	56	-	-	56
Share options exercised (note 6)	393,750	-	611	(130)	-	-	481
Dividends on common shares	-	-	-	-	-	(5,163)	(5,163)
<b>Total transactions with owners</b>	6,143,750	2,875,000	19,299	(74)	-	(5,998)	13,227
<b>Balance at September 30, 2014</b>	<b>29,554,614</b>	<b>2,875,000</b>	<b>\$ 33,268</b>	<b>\$ 2,005</b>	<b>\$ (2,538)</b>	<b>\$ 4,178</b>	<b>\$ 36,913</b>

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**SAVARIA CORPORATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
*(in thousands of dollars - Unaudited)*

	Note	Periods of		Periods of	
		three months ended September 30,	2013	2014	2013
		2014	2013	2014	2013
<b>Cash flows from operating activities</b>					
Net income		\$ 1,926	\$ 1,517	\$ 4,677	\$ 4,174
Adjustments for:					
Depreciation of fixed assets		257	220	741	601
Amortization of intangible assets		177	178	564	561
Change in the fair value of restructured notes and put option		-	-	-	(103)
Income tax expense		703	591	1,716	1,601
Capitalized finance costs on long-term debt		7	11	14	33
Compensation expense on share options granted		26	10	56	28
Gains on foreign exchange contracts cashed in advance and transferred to net income		(53)	(103)	(177)	(320)
Loss on the sale and write-off of fixed assets		-	-	-	15
Unrealized foreign exchange loss (gain) on non-current monetary items		110	(21)	68	100
Interest cost		196	181	520	534
		<b>3,349</b>	<b>2,584</b>	<b>8,179</b>	<b>7,224</b>
Net changes in non-cash operating items	9	(736)	(489)	(1,704)	(1,853)
Increase in long-term loans		(33)	-	(33)	-
Proceeds from long-term loans		10	115	110	341
Income tax paid		(470)	(144)	(1,144)	(261)
<b>Net cash from operating activities</b>		<b>2,120</b>	<b>2,066</b>	<b>5,408</b>	<b>5,451</b>
<b>Cash flows used in investing activities</b>					
Business acquisition	4	(2,500)	-	(2,500)	-
Receipts of long-term investments		-	-	-	25
Proceeds from sales of fixed assets		-	-	-	14
Additions to fixed assets		(118)	(204)	(392)	(937)
Increase in intangible assets		(114)	(81)	(264)	(224)
<b>Net cash used in investing activities</b>		<b>(2,732)</b>	<b>(285)</b>	<b>(3,156)</b>	<b>(1,122)</b>
<b>Cash flows (used in) from financing activities</b>					
Change in bank loans		-	(259)	-	-
Increase in long-term debt		-	557	139	557
Repayment of borrowings		(468)	(464)	(1,997)	(2,227)
Interest paid		(196)	(181)	(520)	(534)
Proceeds from the issuance of common shares and warrants in relation to a private placement, net of transaction fees	6	(6)	-	17,545	-
Repurchase of common shares		-	-	-	(10)
Proceeds from exercise of share options	6	-	440	481	562
Dividends paid on common shares		(1,034)	(468)	(5,163)	(2,789)
<b>Net cash (used in) from financing activities</b>		<b>(1,704)</b>	<b>(375)</b>	<b>10,485</b>	<b>(4,441)</b>
<b>Net change in cash</b>		<b>(2,316)</b>	<b>1,406</b>	<b>12,737</b>	<b>(112)</b>
Cash at the beginning of the period		17,021	475	1,968	1,993
<b>Cash at the end of the period</b>		<b>\$ 14,705</b>	<b>\$ 1,881</b>	<b>\$ 14,705</b>	<b>\$ 1,881</b>

The notes on pages 7 to 16 are an integral part of these unaudited condensed consolidated interim financial statements.

## **SAVARIA CORPORATION**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

*(Tabular amounts are expressed in thousands of dollars - Unaudited)*

#### **1 . Reporting entity**

Savaria Corporation is a company domiciled in Canada. The address of its registered office is 2724 Etienne-Lenoir Street, Laval, Quebec. The condensed consolidated interim financial statements of the Corporation as at and for the periods ended September 30, 2014 and 2013 comprise the accounts of Savaria Corporation and its wholly owned subsidiaries (together referred to as the "Corporation"). The activities of the Corporation consist of designing, manufacturing, installing and distributing elevators, platform lifts and stairlifts for people with mobility challenges as well as converting and adapting minivans also for persons with mobility challenges.

The consolidated financial statements of the Corporation as at and for the year ended December 31, 2013 are available upon request from the Corporation's registered office, at [www.savaria.com](http://www.savaria.com) or on SEDAR's website at [www.sedar.com](http://www.sedar.com).

#### **2 . Basis of presentation**

##### **Statement of compliance**

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34.

These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the annual financial statements of the Corporation and the notes thereto for the year ended on December 31, 2013. These condensed consolidated interim financial statements have not been the subject of a review or an audit by the Corporation's auditors; they were approved by the Board of Directors on November 13, 2014.

#### **3 . Significant accounting policies**

The condensed consolidated interim financial statements have been prepared following the same accounting policies used in the annual consolidated financial statements for the years ended December 31, 2013 and 2012, except for the adoption of new accounting standards as outlined below.

The accounting policies have been applied consistently by the Corporation's entities and to all periods presented in these condensed consolidated interim financial statements, unless otherwise indicated.

##### **(A) New accounting standards adopted**

The following new standards, and amendments to standards and interpretations have been applied in preparing the condensed consolidated interim financial statements as at September 30, 2014. The adoption of these new standards has not had a material impact on the financial statements.

##### **IFRS 9 - Financial Instruments**

In November 2009, the International Accounting Standards Board ("IASB") issued IFRS 9, *Financial Instruments* (IFRS 9 (2009)), and in October 2010, the IASB published amendments to IFRS 9 (IFRS 9 (2010)). In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9, *Financial Instruments* (2013). In February 2014, the IASB tentatively decided that the mandatory effective date of the new standard will be January 1, 2018.

## SAVARIA CORPORATION

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*(Tabular amounts are expressed in thousands of dollars - Unaudited)*

#### 3 . Significant accounting policies (continued)

##### (A) New accounting standards adopted (continued)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional changes relating to financial liabilities. IFRS 9 (2013) includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness. However it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

The Corporation has decided to adopt the new IFRS 9 (2013) standards in its condensed consolidated interim financial statements for the quarter ending on June 30, 2014 and effective on April 1, 2014. On adoption of IFRS 9 (2013), in accordance with its transitional provisions, the Corporation has not restated prior periods but has classified its financial assets and liabilities as at April 1, 2014 retrospectively based on the new classification requirements and the characteristics of each financial instrument at the transition date. Adoption of IFRS 9 (2013) did not result in any reclassifications on the statement of financial position or any change in carrying amounts.

##### **Policy for non-derivative financial assets and liabilities applied from April 1, 2014**

The Corporation initially recognizes financial assets on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit and loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. On initial recognition, the Corporation classifies its financial assets as subsequently measured at either amortized cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment loss, if:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

Trade receivables and long-term loans are presented on the consolidated statement of financial position net of an allowance for impairment loss. 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. Impairment is charged to an allowance account for as long as management considers that there is a possibility of collecting the amount. Once all possibility of collecting an impaired account has been exhausted, the impairment is directly charged against the carrying amount.

Trade receivables are occasionally renegotiated as long-term loans. In these cases, the Corporation requires sufficient securities that may include personal guarantees to cover the amount of the loan. Such loans are recorded at fair value at the time of transfer of the trade receivables to long-term loans.



**SAVARIA CORPORATION**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*(Tabular amounts are expressed in thousands of dollars - Unaudited)***3 . Significant accounting policies (continued)****(A) New accounting standards adopted (continued)**

The Corporation classifies all financial liabilities as subsequently measured at amortized cost using the effective interest method, except for financial liabilities at fair value through profit and loss. Such liabilities, including derivatives that are liabilities, are subsequently measured at fair value.

**Policy for derivative financial assets and liabilities applied from April 1, 2014**

Upon adoption of IFRS 9 (2013), all the Corporation's existing hedging relationships that qualified for hedge accounting under IAS 39 were reassessed with respect to the new hedge accounting requirements in IFRS 9 (2013). The hedging relationships have been continued under IFRS 9 (2013). After adoption of IFRS 9 (2013), the Corporation's policies regarding derivative financial assets and liabilities are substantially the same as at March 31, 2014.

**Classification of financial instruments <sup>(1)</sup>**

	Category under IAS 39	Category under IFRS 9 (2013)
<b>Financial assets</b>		
Cash	LR	AC
Trade and other receivables	LR	AC
Long-term loans	LR	AC
<b>Financial liabilities</b>		
Trade and other payables	OFL	AC
Foreign exchange forward contracts	FV	FV
Interest rate swap agreements	FV	FV
Long-term debt	OFL	AC

<sup>(1)</sup> Categories of financial instruments:

- Loans and receivables - LR
- Assets and liabilities carried at amortized cost - AC
- Other Financial liabilities - OFL
- Liabilities carried at fair value - FV

**Amendments to IAS 32 - *Offsetting Financial Assets and Liabilities***

In December 2011 the IASB published *Offsetting Financial Assets and Financial Liabilities*. These amendments are to be applied retrospectively.

The amendments to IAS 32 clarify that an entity currently has a legally enforceable right to set-off if that right is:

- . not contingent on a future event; and
- . enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement.

## SAVARIA CORPORATION

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Tabular amounts are expressed in thousands of dollars - Unaudited)

#### 3 . Significant accounting policies (continued)

##### (A) New accounting standards adopted (continued)

###### **Amendments to IAS 39 - *Novation of Derivatives and Continuation of Hedge Accounting***

In June 2013, the IASB issued *Novation of Derivatives and Continuation of Hedge Accounting* (Amendments to IAS 39).

The amendments add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria.

###### **IFRIC 21 - *Levies***

In May 2013, the IASB issued IFRIC 21, *Levies*. IFRIC 21 is to be applied retrospectively.

IFRIC 21 provides guidance on accounting for levies in accordance with the requirements of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also notes that levies do not arise from executory contracts or other contractual arrangements. The interpretation also confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs.

##### (B) New accounting standards and interpretations not yet adopted

The following new standard, not yet effective, has not been applied in preparing these condensed consolidated interim financial statements.

###### **IFRS 15 - *Revenue from contracts with customers***

On May 28, 2014, the IASB issued IFRS 15, *Revenue from contracts with customers*. The effective date for the new standard is annual periods beginning on January 1, 2017 and early adoption is permitted.

The IFRS will replace IAS 11, *Construction contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer loyalty programmes*, IFRIC 15, *Agreements for the construction of real estate*, IFRIC 18, *Transfers of assets from customers*, and SIC-13, *Revenue - barter transactions involving advertising services*.

The standard provides for a single model that applies to contracts with customers based on two approaches in recognizing revenue : at a given time or over time. The proposed model consists of a five-step analysis of transactions, focussed on the contracts in order to determine if revenue is recognized, what amount is recognized and at what point in time it is recognized. New thresholds have been put into place relative to estimates and judgment, which may have an impact on the amount of revenue that is recognized and/or on the timing of its recognition.

The new standard applies to contracts with customers. It does not apply to insurance contracts, to financial instruments or to lease contracts, which fall within the scope of other IFRS.

The Corporation intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on January 1, 2017. The extent of the impact of the adoption of this standard has not yet been determined.

## **SAVARIA CORPORATION**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

*(Tabular amounts are expressed in thousands of dollars - Unaudited)*

#### **4 . Business acquisition**

On September 11, 2014, the Corporation acquired substantially all of the operating assets of Privax International Ltd. and its subsidiaries operating under the Silver Cross ("Silver Cross") banner. Silver Cross operates a lead generation program to capture and distribute leads to affiliates in North America. It is also a franchisor of new and recycled home accessibility equipment stores that are located mostly in Canada but also in the United-States. By acquiring Silver Cross, Savaria sees an opportunity to increase sales of its accessibility products through the sales to its franchisees and affiliates. The Corporation also sees an opportunity for major growth in the number of franchises in Canada as well as in the lead generation program, which will increase business opportunities for Savaria's authorized distributors and Silver Cross' franchisees and affiliates.

The fair value of the total consideration transferred amounts to \$4,490,000. It includes an initial payment on the date of acquisition of \$2,500,000 and a note with a fair value of \$1,914,000 payable in eight bi-annual payments of \$275,000 each, the first of which is due on March 15, 2015. This note payable bears no interest and was recorded at its estimated fair value based on the net present value of the future cash flows calculated at a rate of 6.5%.

Acquisition related costs, amounting to \$73,000, have been included in Administrative expenses for the third quarter of 2014. The amounts paid came from Corporation's available cash on hand.

The purchased assets are mainly intangible assets, such as customer lists, trade marks and software, as well as goodwill; the latter arising from the synergies between Savaria and Silver Cross and the additional sales of accessibility equipment that will result from them. The Corporation is still in the process of determining the allocation of the consideration paid between the different intangible assets acquired and goodwill.

Since the acquisition on September 11, 2014, sales and net income amounted to \$37,000 and \$10,000, respectively. If the acquisition of Silver Cross had taken place on January 1, 2014, management's estimate of sales and net income of this business for the first three quarters of 2014 would have been approximately \$785,000 and \$175,000, respectively. These estimates were prepared using historical information obtained from the acquiree and do not reflect the benefits of integration activities, synergies or changes to historical transactions that may have resulted had the acquisition actually occurred on January 1, 2014. Estimated amounts are not necessarily indicative of the results of operations of the business that would have resulted had the acquisition actually occurred on January 1, 2014, or the results that may be obtained in the future.

#### **5 . Bank loans**

During the second quarter of 2014, the Corporation's authorized line of credit was increased from \$5,000,000 to \$7,500,000; the sureties are the same as those described in note 12 of the December 31, 2013 financial statements.

#### **6 . Share capital**

During the first three quarters of 2014, the Corporation issued 393,750 common shares (2013-507,500) at an average price of \$1.22 per share (2013-\$1.11) following the exercise of stock options. These exercises resulted in an increase in share capital of \$611,000 (2013-\$660,000) and a decrease in contributed surplus of \$130,000 (2013-\$98,000). At September 30, 2014, 732,500 options are outstanding at a weighted average exercise price of \$2.25 per share.

On April 15, 2014, the Corporation completed a "bought deal" private placement of 5,750,000 units at a price of \$3.25 per unit, for gross proceeds to Savaria of \$18,688,000 and proceeds, net of share issuance costs, of \$17,545,000. Each unit is comprised of one common share and one-half of a common share warrant. Each full warrant entitles its holder to subscribe for one additional common share of Savaria at an exercise price of \$4.25 until April 15, 2017.

**SAVARIA CORPORATION**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Tabular amounts are expressed in thousands of dollars - Unaudited)

**7 . Revenue**

	Periods of three months ended September 30,		Periods of nine months ended September 30,	
	2014	2013	2014	2013
Sale of goods	\$ 20,326	\$ 18,683	\$ 56,986	\$ 52,459
Rendering of services	1,421	1,336	4,426	4,160
	<b>\$ 21,747</b>	<b>\$ 20,019</b>	<b>\$ 61,412</b>	<b>\$ 56,619</b>

**8 . Finance income and finance costs**

	Periods of three months ended September 30,		Periods of nine months ended September 30,	
	2014	2013	2014	2013
Interest income	\$ 52	\$ 8	\$ 100	\$ 12
Net gain on foreign currency exchange	372	-	366	94
Change in the fair value of restructured notes and put option	-	-	-	103
<b>Finance income</b>	<b>\$ 424</b>	<b>\$ 8</b>	<b>\$ 466</b>	<b>\$ 209</b>
Interest on long-term debt	\$ 134	\$ 147	\$ 414	\$ 477
Interest expense and bank charges	69	45	120	91
Net loss on foreign currency exchange	-	128	-	-
<b>Finance costs</b>	<b>\$ 203</b>	<b>\$ 320</b>	<b>\$ 534</b>	<b>\$ 568</b>

**9 . Net changes in non-cash operating items**

	Periods of three months ended September 30,		Periods of nine months ended September 30,	
	2014	2013	2014	2013
Trade and other receivables	\$ (1,287)	\$ (18)	\$ (1,735)	\$ (444)
Tax credits receivable	(44)	(97)	(121)	(225)
Inventories	(902)	(539)	(2,508)	(1,287)
Prepaid expenses	97	35	(107)	(209)
Trade and other payables	1,462	208	2,402	170
Deferred revenues	(113)	(151)	256	(10)
Warranty provision	51	73	109	152
	<b>\$ (736)</b>	<b>\$ (489)</b>	<b>\$ (1,704)</b>	<b>\$ (1,853)</b>

**SAVARIA CORPORATION**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Tabular amounts are expressed in thousands of dollars - Unaudited)

**10 . Financial instruments**

**Fair values versus carrying amounts**

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	September 30, 2014	
	Carrying amount	Fair value
<b>Assets carried at amortized cost</b>		
Cash <sup>(1)</sup>	\$ 14,705	
Trade and other receivables <sup>(1)</sup>	12,216	
Long-term loans	183	\$ 175
	\$ 27,104	\$ 175
<b>Liabilities carried at fair value</b>		
Foreign exchange forward contracts <sup>(2)</sup>	\$ 3,675	\$ 3,675
Interest rate swap agreements <sup>(2)</sup>	150	150
	\$ 3,825	\$ 3,825
<b>Liabilities carried at amortized cost</b>		
Trade and other payables <sup>(1)</sup>	\$ 9,742	
Long-term debt <sup>(3)</sup>	15,665	\$ 15,658
	\$ 25,407	\$ 15,658

<sup>(1)</sup> Carrying value approximates fair value due to the short-term nature of the instruments.

<sup>(2)</sup> These financial instruments are of Level 2.

<sup>(3)</sup> This financial instrument is of Level 3.

Trade receivables having a carrying amount of \$12,008,000 have been pledged as surety on the line of credit that the Corporation has with its financial institution which has a balance of \$3,825,000 as at September 30, 2014. The amount drawn on the line of credit may not exceed 90% of certain trade receivables that benefit from a grant, 80% of all other Canadian trade receivables, 65% of US trade receivables and a maximum amount of \$5,000,000 of inventory represented by 50% of raw material and finished goods inventory, after deduction of supplier trade payables of less than 30 days.

The table below indicates the presentation of the derivative financial instruments in the statement of financial position.

	September 30, 2014	December 31, 2013
<b>Current liabilities</b>		
Foreign exchange derivatives	\$ 1,652	\$ 1,002
Interest rate derivatives	93	111
	\$ 1,745	\$ 1,113
<b>Non-current liabilities</b>		
Foreign exchange derivatives	\$ 2,023	\$ 1,098
Interest rate derivatives	57	48
	\$ 2,080	\$ 1,146

**SAVARIA CORPORATION**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*(Tabular amounts are expressed in thousands of dollars - Unaudited)***10 . Financial instruments (continued)****Determination of fair values**

A number of the Corporation's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

**(A) Assets at amortized cost**

Assets at amortized cost are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

**(B) Derivatives**

The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). The fair value of interest rate swap arrangements is estimated by discounting the difference between the contractual interest rate and market rates over the value of the loans.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Corporation entity and counterparty when appropriate.

**(C) Financial liabilities at amortized cost**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

**Risk Management****Currency risk**

The Corporation realizes approximately 61% (2013-58%) 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 raw materials in US dollars and by using forward foreign exchange contracts. Those contracts oblige the Corporation to sell US dollars at a fixed rate.

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

The following tables summarize the characteristics of the foreign exchange contracts:

As at September 30, 2014

Maturity	Type	Average exchange rate	Contractual amounts (in thousands of US dollars)
0 to 12 months	Sale	1.0323	\$18,000
12 to 24 months	Sale	1.0498	18,500
24 to 36 months	Sale	1.0959	16,500
		<b>1.0582</b>	<b>\$53,000</b>

**SAVARIA CORPORATION**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Tabular amounts are expressed in thousands of dollars - Unaudited)

**10 . Financial instruments (continued)**

**Currency risk (continued)**

As at December 31, 2013

Maturity	Type	Average exchange rate	Contractual amounts (in thousands of US dollars)
0 to 12 months	Sale	1.0100	\$18,000
12 to 24 months	Sale	1.0407	18,000
24 to 36 months	Sale	1.0551	17,000
		<b>1.0349</b>	<b>\$53,000</b>

**Interest rate risk**

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

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

The Corporation signed a financing agreement in April 2012 comprising of two long-term debts. Since those debts bear interest at variable rates, the Corporation decided to enter into interest rate swap contracts to minimize its risk related to changes in interest rates.

Maturity	Fixed interest rate	Original capital amount	Balance	
			September 30, 2014	December 31, 2013
April 2017	1.98%	\$7,000	\$4,583	\$5,313
April 2017	2.08%	\$9,600	\$8,087	\$8,525

A stamping fee of 1.5% is added to the interest rates stated above.

**11 . Operating segments**

**Information about the operating segments**

The Corporation's business structure is divided into two operating segments, the first consists of designing, manufacturing, installing and distributing residential and commercial accessibility equipment for people with mobility challenges (Accessibility); this segment also includes operations that came from the acquisition of Silver Cross in the third quarter of 2014, consisting of the operation of a franchise network through which new and recycled accessibility equipment is sold, and a lead generation program to capture and distribute leads on potential customers to affiliates in North America. The second consists of converting and adapting minivans for persons with mobility challenges (Adapted Vehicles).

Periods of  
three months ended September 30,

	2014			2013		
	Accessibility	Adapted Vehicles	Total	Accessibility	Adapted Vehicles	Total
External revenues	\$ 18,239	\$ 3,508	\$ 21,747	\$ 17,095	\$ 2,924	\$ 20,019
Income before income tax and unallocated amounts	\$ 2,705	\$ 449	\$ 3,154	\$ 2,372	\$ 313	\$ 2,685

**SAVARIA CORPORATION**
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**
*(Tabular amounts are expressed in thousands of dollars - Unaudited)*
**11 . Operating segments (continued)**
**Information about the operating segments (continued)**

 Periods of  
 nine months ended September 30,

	2014			2013		
	Accessibility	Adapted Vehicles	Total	Accessibility	Adapted Vehicles	Total
External revenues	\$ 51,526	\$ 9,886	\$ 61,412	\$ 46,449	\$ 10,170	\$ 56,619
Income before income tax and unallocated amounts	\$ 6,913	\$ 1,089	\$ 8,002	\$ 5,951	\$ 1,482	\$ 7,433

	September 30, 2014			December 31, 2013		
	Accessibility	Adapted Vehicles	Total	Accessibility	Adapted Vehicles	Total
Segment's assets	\$ 40,234	\$ 7,322	\$ 47,556	\$ 32,011	\$ 6,268	\$ 38,279
Segment's liabilities	\$ 13,049	\$ 1,472	\$ 14,521	\$ 9,436	\$ 1,007	\$ 10,443

**Reconciliations of operating segments and the consolidated balances**

 Periods of  
 three months ended September 30,      Periods of  
 nine months ended September 30,

	2014		2013	
	2014	2013	2014	2013
<b>Income before income tax</b>				
Total income of segments, before income tax and unallocated amounts	\$ 3,154	\$ 2,685	\$ 8,002	\$ 7,433
Unallocated amounts:				
Depreciation and amortization	(434)	(398)	(1,305)	(1,162)
Net finance costs	(110)	(146)	(326)	(413)
Other corporate revenue and expenses <sup>(1)</sup>	19	(33)	22	(83)
Income before income tax	\$ 2,629	\$ 2,108	\$ 6,393	\$ 5,775
			<b>September 30, 2014</b>	<b>December 31, 2013</b>
<b>Assets</b>				
Total assets of segments			\$ 47,556	\$ 38,279
Unallocated amounts <sup>(2)</sup>			22,868	10,734
Total consolidated assets			\$ 70,424	\$ 49,013
<b>Liabilities</b>				
Total liabilities of segments			\$ 14,521	\$ 10,443
Unallocated amounts <sup>(3)</sup>			18,990	18,337
Total consolidated liabilities			\$ 33,511	\$ 28,780

<sup>(1)</sup> Intercompany rental revenue, salaries, professional fees and other corporate expenses not included in the segments' income.

<sup>(2)</sup> Corporate assets, including cash resulting from the last private placement of \$17,500,000 and a building with a net carrying value of \$9,680,000 (\$9,880,000 in 2013), not included in the assets of the segments.

<sup>(3)</sup> Corporate liabilities, including a portion of long-term debt in the amount of \$14,953,000 (\$14,856,000), not included in the liabilities of the segments.