

**SAVARIA CORPORATION**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**AS AT JUNE 30, 2011**  
**(Unaudited and not reviewed by the Corporation's independent auditors)**

**SAVARIA CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Unaudited)

	<i>Note</i>	<b>June 30, 2011</b>	<b>December 31, 2010</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash		\$ 969 338	\$ 6 040 620
Restricted cash		400 000	400 000
Trade and other receivables		11 934 750	10 444 163
Foreign exchange forward contracts		-	105 395
Current portion of long-term loans		92 028	89 516
Research and development credits receivable		804 636	840 723
Inventories		14 514 541	14 536 280
Prepaid expenses		902 262	939 701
<b>Total current assets</b>		<b>29 617 555</b>	<b>33 396 398</b>
<b>Non-current assets</b>			
Restricted cash		900 000	1 100 000
Research and development credits receivable		631 589	524 247
Long-term loans		276 215	323 809
Fixed assets		1 882 145	1 929 945
Goodwill		4 051 307	4 051 307
Intangible assets		2 959 050	3 194 209
Long-term investments	5	1 425 938	1 498 865
Deferred tax assets		1 463 320	1 256 242
<b>Total non-current assets</b>		<b>13 589 564</b>	<b>13 878 624</b>
<b>Total assets</b>		<b>\$ 43 207 119</b>	<b>\$ 47 275 022</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Bank loans	6	\$ -	\$ 1 990 000
Trade and other payables		6 564 617	6 547 381
Deferred revenues		2 355 043	2 043 019
Income taxes payable		146 852	57 878
Current portion of long-term debt	7	4 840 516	4 235 713
Warranty provision		334 406	356 212
<b>Total current liabilities</b>		<b>14 241 434</b>	<b>15 230 203</b>
<b>Non-current liabilities</b>			
Long-term debt	7	9 367 355	9 156 052
Warranty provision		425 910	426 014
Deferred tax liabilities		144 925	386 078
<b>Total non-current liabilities</b>		<b>9 938 190</b>	<b>9 968 144</b>
<b>Total liabilities</b>		<b>24 179 624</b>	<b>25 198 347</b>
<b>Equity</b>			
Share capital	8	13 314 241	12 629 730
Share capital to be issued		-	567 000
Contributed surplus		2 066 681	2 063 660
Accumulated other comprehensive income		1 142 783	2 080 560
Retained earnings		2 503 790	4 735 725
<b>Total equity</b>		<b>19 027 495</b>	<b>22 076 675</b>
<b>Total liabilities and equity</b>		<b>\$ 43 207 119</b>	<b>\$ 47 275 022</b>

See accompanying notes to the condensed consolidated interim financial statements

**SAVARIA CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited)

	Periods of three months ended June 30		Periods of six months ended June 30	
	2011	2010	2011	2010
<b>Revenue</b>	\$ 16 007 841	\$ 16 939 611	\$ 31 521 442	\$ 30 182 267
<b>Cost of sales</b>	( 12 001 522 )	( 12 062 312 )	( 23 004 930 )	( 21 716 451 )
<b>Gross margin</b>	4 006 319	4 877 299	8 516 512	8 465 816
<b>Operating costs</b>				
Administrative expenses	( 1 697 095 )	( 1 634 942 )	( 3 521 248 )	( 3 229 535 )
Selling expenses	( 1 405 770 )	( 1 246 810 )	( 2 745 872 )	( 2 290 412 )
Engineering and research and development expenses	( 586 867 )	( 561 639 )	( 1 197 743 )	( 1 052 140 )
	( 3 689 732 )	( 3 443 391 )	( 7 464 863 )	( 6 572 087 )
Other income (costs)	( 876 )	( 584 )	( 876 )	25 650
<b>Operating income</b>	315 711	1 433 324	1 050 773	1 919 379
Finance income	56 438	345 273	74 393	448 919
Finance costs	( 191 656 )	( 33 077 )	( 655 128 )	( 446 101 )
<b>Net finance costs</b>	( 135 218 )	312 196	( 580 735 )	2 818
<b>Income before income tax</b>	180 493	1 745 520	470 038	1 922 197
Income tax expense	( 40 427 )	( 491 822 )	( 152 793 )	( 609 010 )
<b>Net income for the period</b>	140 066	1 253 698	317 245	1 313 187
<b>Other comprehensive income</b>				
Change in the fair value of foreign exchange contracts designated as cash flow hedges	2 918	522 668	28 307	1 032 179
Deferred income tax	( 781 )	( 146 195 )	( 7 583 )	( 294 616 )
	2 137	376 473	20 724	737 563
Gains on foreign exchange contracts transferred to net income in the current period	( 527 845 )	( 530 539 )	( 1 287 417 )	( 826 204 )
Deferred income tax	141 410	154 546	344 899	240 673
	( 386 435 )	( 375 993 )	( 942 518 )	( 585 531 )
Net change in fair value of derivatives designated as cash flow hedges	( 384 298 )	480	( 921 794 )	152 032
Unrealized net gains (losses) on translation of financial statements of self-sustaining foreign operations	3 118	44 733	( 15 983 )	22 540
<b>Other comprehensive (loss) income for the period, net of income tax</b>	( 381 180 )	45 213	( 937 777 )	174 572
<b>Total comprehensive (loss) income for the period</b>	\$ (241 114)	\$ 1 298 911	\$ (620 532)	\$ 1 487 759
<b>Earnings per share:</b>				
Basic	\$ 0,006	\$ 0,057	\$ 0,014	\$ 0,059
Diluted	\$ 0,006	\$ 0,053	\$ 0,014	\$ 0,056

See accompanying notes to the condensed consolidated interim financial statements

**SAVARIA CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
Period of six months ended June 30,  
(Unaudited)

	2010						
	Share capital		Share capital to be issued	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total equity
	Number	Amount					
<b>Balance at January 1, 2010</b>	<b>22 158 219</b>	<b>\$ 12 633 431</b>	<b>\$ -</b>	<b>\$ 1 909 785</b>	<b>\$ 2 011 534</b>	<b>\$ 4 217 289</b>	<b>\$ 20 772 039</b>
<b><u>Total comprehensive income for the period</u></b>							
<b>Net Income for the period</b>	-	-	-	-	-	1 313 187	1 313 187
<b>Other comprehensive income :</b>							
Change in the fair value of foreign exchange contracts designated as cash flow hedges, net of tax	-	-	-	-	737 563	-	737 563
Gains on foreign exchange contracts transferred to net income in the current period, net of tax	-	-	-	-	(585 531)	-	(585 531)
Unrealized net losses on translation of financial statements of self-sustaining foreign operations	-	-	-	-	22 540	-	22 540
<b>Total other comprehensive income</b>	-	-	-	-	174 572	-	174 572
<b>Total comprehensive income for the period</b>	-	\$ -	\$ -	\$ -	\$ 174 572	\$ 1 313 187	\$ 1 487 759
<b><u>Transactions with owners, recorded directly in equity</u></b>							
Cancelled shares following issuer bid	(111 500)	(63 570)	-	-	-	(37 750)	(101 320)
Compensation expense on options granted	-	-	-	84 823	-	-	84 823
Dividends on common shares	-	-	-	-	-	(1 868 724)	(1 868 724)
Shares to be issued in relation to a business acquisition	-	-	567 000	-	-	-	567 000
<b>Total transactions with owners</b>	(111 500)	(63 570)	567 000	84 823	-	(1 906 474)	(1 318 221)
<b>Balance at June 30, 2010</b>	<b>22 046 719</b>	<b>\$ 12 569 861</b>	<b>\$ 567 000</b>	<b>\$ 1 994 608</b>	<b>\$ 2 186 106</b>	<b>\$ 3 624 002</b>	<b>\$ 20 941 577</b>

See accompanying notes to the condensed consolidated interim financial statements

**SAVARIA CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
Period of six months ended June 30,  
(Unaudited)

	2011						
	Share capital		Share capital to be issued	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total equity
	Number	Amount					
<b>Balance at January 1, 2011</b>	<b>22 017 564</b>	<b>\$ 12 629 730</b>	<b>\$ 567 000</b>	<b>\$ 2 063 660</b>	<b>\$ 2 080 560</b>	<b>\$ 4 735 725</b>	<b>\$ 22 076 675</b>
<b><u>Total comprehensive income for the period</u></b>							
<b>Net income for the period</b>	-	-	-	-	-	317 245	317 245
<b>Other comprehensive income :</b>							
Change in the fair value of foreign exchange contracts designated as cash flow hedges, net of tax	-	-	-	-	20 724	-	20 724
Gains on foreign exchange contracts transferred to net income in the current period, net of tax	-	-	-	-	(942 518)	-	(942 518)
Unrealized net losses on translation of financial statements of self-sustaining foreign operations	-	-	-	-	(15 983)	-	(15 983)
<b>Total other comprehensive income</b>	-	-	-	-	(937 777)	-	(937 777)
<b>Total comprehensive income for the period</b>	-	\$ -	\$ -	\$ -	\$ (937 777)	\$ 317 245	\$ (620 532)
<b><u>Transactions with owners, recorded directly in equity</u></b>							
Cancelled shares following issuer bid	(175 200)	(100 599)	-	-	-	(181 651)	(282 250)
Compensation expense on options granted	-	-	-	56 131	-	-	56 131
Share options exercised	132 500	218 110	-	(53 110)	-	-	165 000
Dividends on common shares	-	-	-	-	-	(2 367 529)	(2 367 529)
Shares issued in relation to a business acquisition	1 000 000	567 000	(567 000)	-	-	-	-
<b>Total transactions with owners</b>	957 300	684 511	(567 000)	3 021	-	(2 549 180)	(2 428 648)
<b>Balance at June 30, 2011</b>	<b>22 974 864</b>	<b>\$ 13 314 241</b>	<b>\$ -</b>	<b>\$ 2 066 681</b>	<b>\$ 1 142 783</b>	<b>\$ 2 503 790</b>	<b>\$ 19 027 495</b>

See accompanying notes to the condensed consolidated interim financial statements

**SAVARIA CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	Note	Periods of three months ended June 30		Periods of six months ended June 30	
		2011	2010	2011	2010
<b>Cash flow from operating activities</b>					
Net income for the period		\$ 140 066	\$ 1 253 698	\$ 317 245	\$ 1 313 187
Adjustments for :					
Amortization of fixed assets		182 986	116 711	352 845	227 482
Amortization of intangible assets		204 843	185 251	387 064	318 220
Change in the fair value of restructured notes and put option		(32 941)	(81 882)	(4 121)	(59 565)
Income tax expense		40 427	491 822	152 793	609 010
Capitalized finance costs on long-term debt		55 799	27 271	116 287	56 239
Compensation expense on share options granted		34 979	36 042	56 131	84 823
Foreign exchange contracts cashed in advance		-	1 361 000	-	2 070 000
Gains on foreign exchange contracts cashed in advance and transferred to net income		(480 155)	(530 526)	(1 153 713)	(701 001)
Loss on the sale of fixed assets		-	-	-	500
Unrealized foreign exchange gain on non-current monetary items		(30 139)	128 706	(86 228)	44 230
Income tax paid		(29 960)	(16 183)	(101 229)	(31 740)
Finance costs paid		168 798	114 959	293 547	216 483
		254 703	3 086 869	330 621	4 147 868
Net changes in non-cash operating items	9	(1 446 381)	(627 937)	(1 268 920)	(1 199 881)
<b>Net cash (used in) from operating activities</b>		<b>(1 191 678)</b>	<b>2 458 932</b>	<b>(938 299)</b>	<b>2 947 987</b>
<b>Cash flows from investing activities</b>					
Business acquisition, net of cash acquired	4	-	-	-	(772 783)
Change in long-term investments		50 214	155 391	77 048	1 696 129
Change in restricted cash		100 000	100 000	200 000	200 000
Proceeds from sales of fixed assets		-	29 160	-	32 160
Additions to fixed assets		(40 904)	(84 237)	(307 032)	(150 656)
Increase in amortizable intangible assets		(97 623)	(365 593)	(152 034)	(455 619)
Increase in long-term loans		(20 888)	(233 655)	(20 888)	(233 655)
Proceeds from long-term loans		42 808	21 292	54 998	26 886
<b>Net cash from (used in) investing activities</b>		<b>33 607</b>	<b>(377 642)</b>	<b>(147 908)</b>	<b>342 462</b>
<b>Cash flows from financing activities</b>					
Changes in bank loans		(2 160 000)	(560 000)	(1 990 000)	(680 000)
Increase in long-term debt	7	2 517 810	40 605	2 628 310	40 605
Repayment of borrowings		(658 398)	(507 075)	(1 845 059)	(1 059 497)
Finance costs paid		(168 798)	(114 959)	(293 547)	(216 483)
Repurchase of common shares		(60 160)	-	(282 250)	(101 320)
Proceeds from exercise of share options		80 000	-	165 000	-
Dividends paid on common shares		(2 367 529)	(1 868 724)	(2 367 529)	(1 868 724)
<b>Net cash used in financing activities</b>		<b>(2 817 075)</b>	<b>(3 010 153)</b>	<b>(3 985 075)</b>	<b>(3 885 419)</b>
<b>Net change in cash</b>		<b>(3 975 146)</b>	<b>(928 863)</b>	<b>(5 071 282)</b>	<b>(594 970)</b>
Cash at the beginning of the period		4 944 484	5 157 057	6 040 620	4 823 164
<b>Cash at the end of the period</b>		<b>\$ 969 338</b>	<b>\$ 4 228 194</b>	<b>\$ 969 338</b>	<b>\$ 4 228 194</b>

See accompanying notes to the condensed consolidated interim financial statements

## **SAVARIA CORPORATION**

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

(Unaudited)

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

Savaria Corporation is a company domiciled in Canada. The address of its registered office is 2724 Etienne-Lenoir, Laval, Quebec. The condensed consolidated interim financial statements of the Corporation as at and for the periods ended June 30, 2011 comprise the accounts of Savaria Corporation and its wholly owned subsidiaries (together referred to as the "Corporation"). 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 also for persons with mobility challenges.

The consolidated financial statements of the Corporation as at and for the year ended December 31, 2010 which were prepared under Canadian generally accepted accounting principles ("GAAP") are available upon request from the Corporation's registered office at 2724 Etienne-Lenoir, Laval, Quebec or at [www.savaria.com](http://www.savaria.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.

An explanation of how the transition to IFRSs has affected the reported financial position and financial performance of the Corporation is provided in note 11. This note includes reconciliations of equity as at June 30, 2010 and total comprehensive income for comparative periods reported under Canadian GAAP to those reported under IFRSs.

Certain information and footnote disclosures which are considered material to the understanding of the Corporation's condensed consolidated interim financial statements and which are normally included in annual financial statements prepared in accordance with IFRS are presented in note 11 along with reconciliations and description of the effect of the transition from Canadian GAAP to IFRS. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements under IFRS and should be read in conjunction with the annual financial statements of the Corporation as well as the consolidated financial statements for the quarter ended March 31, 2011 and the notes thereto. These condensed consolidated interim financial statements have not been the subject of a review or an audit by the Corporation's auditors but were approved by the Board of Directors on August 15, 2011.

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

The condensed consolidated interim financial statements as at June 30, 2011 have been prepared following the same accounting policies used in the condensed consolidated interim financial statements for the period ended March 31, 2011.

The accounting policies have been applied consistently to all periods presented in these condensed consolidated interim financial statements, unless otherwise indicated.

The accounting policies have been applied consistently by Corporation's entities.

## SAVARIA CORPORATION

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

#### 4 . Business acquisitions

##### (i) Concord Elevator London Ltd ("Concord London")

On February 1, 2010, the Corporation acquired 100% of the outstanding common shares of Concord London, a retailer specialized in the installation and maintenance of elevators and platform lifts in the province of Ontario. The agreement provided for an initial payment of \$1,500,000 on the date of acquisition and four annual payments of \$600,000 on the anniversary date of the acquisition. 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%. The transaction included a potential 1 million common shares to be issued one year after the signing of the agreement if the condition of a potential union bargaining right being nullified was met. The Corporation estimated at 80% the probability that this condition would be met. The shares to be issued have been recorded in the amount of \$567,000 under the heading of share capital to be issued and were issued in February 2011.

Acquisition related costs that include legal fees and due diligence costs amounting to \$119,918 have been included in Administrative expenses for the first quarter of 2010. Goodwill in the amount of \$2,638,317 has been recognized following this acquisition.

Trade and other receivables are comprised of trade receivables with gross contractual amounts of \$984,020 and allowance for bad debt of \$24,147 for a net amount of \$959,873. The full net amount has been collected.

Revenues and net income in the amount of \$2,498,962 (\$2,076,508 in 2010) and \$184,353 (\$150,573 in 2010), respectively, are included in the condensed consolidated statement of comprehensive income for the six-month period ended on June 30, 2011.

##### (ii) Concord Elevator (Alberta) Ltd. ("Concord Alberta")

On July 19, 2010, the subsidiary Savaria Lifts Ltd. acquired certain assets and liabilities of Concord Alberta, a retailer specialized in the installation and maintenance of elevators and platform lifts in the province of Alberta. The agreement provides for an initial payment of \$240,000 on the date of acquisition as well as a payment of \$100,000 on the first anniversary date of the acquisition. The 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 that include legal fees and due diligence costs were not significant. Goodwill in the amount of \$290,546 has been recognized following this acquisition.

Revenues and net income in the amount of \$523,301 (nil in 2010) and \$9,667 (nil in 2010), respectively, are included in the condensed consolidated statement of comprehensive income for the six-month period ended on June 30, 2011.

##### (iii) Freedom Motors Inc. ("Freedom")

On August 2, 2010, the Corporation acquired 100% of the outstanding common shares of Freedom, a corporation specialized in the conversion of mini-vans for people with disabilities. The agreement provided for an initial payment of \$2,560,000 on the date of acquisition as well as a payment of \$500,000 on the first anniversary date of the acquisition. The note payable related to this acquisition 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 that include legal fees and due diligence costs amounting to \$71,981 have been included in Administrative expenses for the third quarter of 2010. Goodwill in the amount of \$616,214 has been recognized following this acquisition.



**SAVARIA CORPORATION**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**4 . Business acquisitions (continued)**

(iii) Freedom (continued)

Trade and other receivables are comprised of trade receivables with gross contractual amounts of \$748,856 and allowance for bad debt of \$19,412 for a net amount of \$729,444. The full net amount has been collected.

(iv) The Liberty Motor Co. Inc. ("Liberty")

On August 2, 2010, the Corporation acquired 100% of the outstanding common shares of Liberty, a corporation specialized in the conversion of mini-vans for people with disabilities. The agreement provided for the issuance of 100,000 common shares and an initial payment of \$250,000 on the date of acquisition as well as two annual payments of \$125,000 on the anniversary date of the acquisition. The note payable related to this acquisition 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 that include legal fees and due diligence costs amounting to \$83,308 have been included in Administrative expenses for the third quarter of 2010.

Since the net value of the identifiable assets acquired and liabilities assumed exceeded the consideration paid, a gain in the amount of \$398,083 has been included in the Other revenues in the third Quarter of 2010. This transaction resulted in a gain because of the recognition of deferred tax assets related to accumulated losses for years prior to the acquisition.

Trade and other receivables are comprised of trade receivables with gross contractual amounts of \$580,219 and recoverable sales tax of \$112,521. The full amount has been collected.

The operations of Freedom and Liberty have been integrated into one entity as of January 1, 2011. Revenues and net losses for this combined entity in the amount of \$2,563,571 (nil in 2010) and \$196,279 (nil in 2010), respectively, are included in the condensed consolidated statement of comprehensive income for the six-month period ended on June 30, 2011.

These acquisitions have been accounted for using the purchase method, and the operating results have been included in the consolidated financial statements from the dates of acquisition. The breakdown of the purchase price presented below is final.

	Concord London	Concord Alberta	Freedom	Liberty	Total
<b>Assets acquired</b>					
Cash	\$ 727 217	\$ -	\$ -	\$ -	\$ 727 217
Current asset items	1 497 478	87 795	2 016 070	2 021 988	5 623 331
Fixed assets	221 377	9 500	113 998	148 725	493 600
Amortizable intangible assets	913 000	170 000	668 000	270 000	2 021 000
Deferred tax assets	-	-	-	420 673	420 673
Goodwill	2 638 317	290 546	616 214	-	3 545 077
	5 997 389	557 841	3 414 282	2 861 386	12 830 898
<b>Liability assumed</b>					
Bank indebtedness	-	-	22 038	15 953	37 991
Current liability items	1 532 482	205 142	243 247	1 897 143	3 878 014
Deferred tax liability	327 479	-	139 864	-	467 343
Warranty provision	-	-	54 000	40 000	94 000
Note payable	-	-	-	110 207	110 207
Long-term debt	35 855	4 192	-	-	40 047
	\$ 1 895 816	\$ 209 334	\$ 459 149	\$ 2 063 303	\$ 4 627 602

**SAVARIA CORPORATION**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**4 . Business acquisitions (continued)**

	<b>Concord London</b>	<b>Concord Alberta</b>	<b>Freedom</b>	<b>Liberty</b>	<b>Total</b>
<b>Fair value of net assets acquired</b>	\$ 4 101 573	\$ 348 507	\$ 2 955 133	\$ 798 083	\$ 8 203 296
Cash (bank indebtedness) in acquired operations	727 217	-	(22 038)	(15 953)	689 226
Expenses to be paid	-	-	-	30 000	30 000
Other income (bargain purchase gain)	-	-	-	398 083	398 083
Share capital to be issued	567 000	-	-	-	567 000
Share capital issued	-	-	-	120 000	120 000
Notes payable, current portion	542 474	100 000	395 133	-	1 037 607
Note payable, long-term portion	1 492 099	-	-	-	1 492 099
<b>Cash flows related to the acquisitions</b>	\$ 772 783	\$ 248 507	\$ 2 582 038	\$ 265 953	\$ 3 869 281

Of the \$2,021,000 of acquired intangible assets, \$874,000 was assigned to customer lists, \$870,000 to maintenance contracts, \$260,000 to customer orders and \$17,000 to a lease at favourable rate.

The \$3,545,077 of goodwill was assigned to the Accessibility and the Adapted vehicles segments in the amounts of \$2,928,863 and \$616,214, respectively. Of that total amount, \$149,840 is deductible for tax purposes. The beginning balance of \$506,230, associated with the Accessibility segment, is added to this amount of \$3,545,077 for a total amount of goodwill of \$4,051,307 as at June 30, 2011.

**5 . Long-term investments**

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Restructured notes (face value of \$1,786,606, \$1,917,356 as of December 31, 2010)	\$ 1 261 795	\$ 1 290 041
Put option	164 143	208 824
	\$ 1 425 938	\$ 1 498 865

**Restructured Notes**

The Corporation holds investments with a face value of \$1,786,606 (US\$1,852,365) that are invested in restructured notes following the replacement of Asset-Backed Commercial Paper. These investments were valued at their fair value at period end.

*Valuation*

The fair value estimate of the restructured notes has been calculated based on information provided by BlackRock Canada Ltd., the asset administrator, and other publicly available information.

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

## SAVARIA CORPORATION

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

#### 5 . Long-term investments (continued)

During the first semester, the fair value of the restructured notes was affected by a number of factors including a lessening in the perceived risk of the MAV 2 Class C notes, a general improvement in the credit markets, improvements in the net asset value of certain tracking notes, the decrease in value of the US dollar in relation to the Canadian dollar and the simple passage of time. As a result of its analysis, the Corporation estimated the fair value of these notes to be \$1,261,795 (US\$1,308,237) as at June 30, 2011. Accordingly, the Corporation recorded a \$48,801 gain during the period. Following this change in value, there remains a balance of the reserve for impairment of \$524,812 (US\$544,128).

It is to be pointed out that these notes are subject to uncertainty as to their eventual cash value. Although management believes that its valuation technique is appropriate under the circumstances, changes in significant assumptions could materially affect the value of the restructured notes in upcoming periods. The resolution of these uncertainties could result in the ultimate value of these investments varying significantly from management's current best estimates. These investments are presented on a long-term basis.

During the six month period, the Corporation received a total of \$77,048 (US\$79,049) in repayment of certain restructured notes. The amounts received were used as a partial reimbursement on loans secured by the restructured notes. As at June 30, 2011, the face value and estimated fair value of the remaining restructured notes are broken down as follows:

Restructuring categories	US \$		Expected maturity date
	Face value	Estimated fair value	
MAV 2 Notes			
A1 (rated A)	835 383	729 066	July 15, 2056
C	25 922	6 554	July 15, 2056
Ineligible asset tracking notes			
MAV 2 - Class 13	131 524	78 246	March 20, 2014
MAV 3 - Class 25	859 536	494 371	December 25, 2036
<b>Total investments</b>	<b>1 852 365</b>	<b>1 308 237</b>	

In 2009, the Corporation signed two long-term financing agreements with its financial institution to ensure the sufficient availability of liquidity to meet its financial obligations while awaiting the disposal of the restructured notes. These agreements were renewed for an additional year during the second quarter of 2011 and now mature in March 2012 and March 2013. The loans are renewable on a yearly basis up to a maximum of four years for the first agreement and three years for the second agreement.

The Corporation holds an option to assign to the bank the ownership of its ineligible asset-tracking notes as well as any proceeds therefrom as payment of 75% of the principal on the related debt. As at June 30, 2011, the Corporation estimated the fair value of this option at \$164,143 (US\$170,185). The estimated fair value is based on 75% of the loan balance minus the fair value of the applicable notes.

The Corporation also holds an option to assign to the bank the ownership of its MAV 2 notes as well as any proceeds therefrom as payment of 45% of the principal on the related debt. As at June 30, 2011, the Corporation estimated the fair value of this option to be nil. The estimated fair value is based on 45% of the loan balance minus the fair value of the applicable notes.

#### 6 . Bank Loans

On May 13, 2011, the Corporation entered into an agreement with its financial institution to increase the authorized amount of the line of credit for its subsidiary Savaria Concord Lifts Inc. ("Savaria Concord") from \$2,000,000 to \$5,000,000. As at June 30, 2011, since the subsidiary was no longer using the line of credit, this amount has returned to its initial value of \$2,000,000.

## SAVARIA CORPORATION

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

#### 6 . Bank Loans (continued)

Also, on May 13, 2011, the Corporation entered into an agreement with its financial institution for a line of credit in the amount of \$500,000 for its subsidiary Van-Action (2005) Inc. ("Van-Action"). The amount drawn on the line of credit may not exceed 90% of Canadian trade receivables that benefit from a grant, 80% of all other trade receivables and 50% of raw material and finished goods inventory. A movable hypothec from Van-Action in the amount of \$2,000,000 on its overall assets and a guarantee pursuant to Section 427 of the *Bank Act* on inventories have been pledged as securities. The line of credit bears interest at prime plus 0.5%. The line of credit in the amount of \$1,500,000 that Van-Action previously had has been cancelled.

#### 7 . Long-Term debt

On May 13, 2011, the Corporation entered into an agreement with its financial institution for a long-term debt in the amount of \$2,500,000. The terms of the agreement include an amortization period of 36 months with a monthly payment in capital of \$41,667 plus interest for the first 24 months and of \$125,000 plus interest for the last 12 months and an interest rate of prime plus 1%. The loan is secured by surety bonds in the amount of \$2,500,000 by each of the subsidiaries Savaria Concord, Van-Action and Freedom.

#### 8 . Share capital

In February 2011, in accordance with the purchase agreement for Concord London (note 4), the Corporation issued 1 million common shares at a cost of \$0.567 per share. The cost per share was based on the market price that applied on the date of the acquisition but which was discounted to reflect the one-year period before the share issuance and was adjusted to reflect the probability estimated by management that the condition, which had to occur for the issuance of the shares to take place, be met.

During the six months ended June 30, 2011, the Corporation repurchased 175,200 common shares at an average price of \$1.61 per share by way of a normal course issuer bid. The excess of the price paid over the book value of the repurchased shares has been recorded against retained earnings.

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

	Periods of three months ended June 30		Periods of six months ended June 30	
	2011	2010	2011	2010
Trade and other receivables	\$ (2 008 445)	\$ (1 407 061)	\$ (1 490 687)	\$ (864 694)
Research and development credits receivable	(122 327)	60 192	(144 761)	198 949
Inventories	246 640	1 073 722	21 739	621 461
Prepaid expenses	104 290	(75 297)	37 439	(314 584)
Trade and other payables	69 776	(8 538)	17 236	(754 266)
Deferred revenues	270 501	(265 832)	312 024	(61 978)
Warranty provision	(6 816)	(5 123)	(21 910)	(24 769)
	\$ (1 446 381)	\$ (627 937)	\$ (1 268 920)	\$ (1 199 881)

#### 10 . Operating segments

##### Information about reportable segments

The Corporation's business structure is divided into two segments: 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 mobility challenges (Adapted Vehicles).

**SAVARIA CORPORATION**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**10 . Operating segments (continued)**

	Periods of three months ended June 30					
	2011			2010		
	Accessibility	Adapted Vehicles	Total	Accessibility	Adapted Vehicles	Total
External revenues	\$ 12 094 564	\$ 3 913 277	\$ 16 007 841	\$ 13 772 780	\$ 3 166 831	\$ 16 939 611
Income (loss) before income tax of the reportable segments	577 575	(96 724)	480 851	2 008 045	36 681	2 044 726

	Periods of six months ended June 30					
	2011			2010		
	Accessibility	Adapted Vehicles	Total	Accessibility	Adapted Vehicles	Total
External revenues	\$ 23 704 533	\$ 7 816 909	\$ 31 521 442	\$ 24 699 085	\$ 5 483 182	\$ 30 182 267
Income (loss) before income tax of the reportable segments	1 321 499	(265 212)	1 056 287	2 526 736	41 274	2 568 010

	June 30, 2011			June 30, 2010		
	Accessibility	Adapted Vehicles	Total	Accessibility	Adapted Vehicles	Total
	Reportable segments assets	\$ 33 276 520	\$ 7 812 177	\$ 41 088 697	\$ 31 844 850	\$ 5 126 286

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

	Periods of three months ended June 30		Periods of six months ended June 30	
	2011	2010	2011	2010
	Total income of reportable segments, before income tax	\$ 480 851	\$ 2 044 726	\$ 1 056 287
Unallocated amounts:				
Finance costs	(124 868)	(84 454)	(232 201)	(171 250)
Other corporate expenses <sup>(1)</sup>	(175 490)	(214 752)	(354 048)	(474 563)
Income before income tax	\$ 180 493	\$ 1 745 520	\$ 470 038	\$ 1 922 197

(1) Salaries, professional fees and other corporate expenses not included in the reportable segments' income

**11 . Explanation of transition to IFRS**

As stated in note 2, the Corporation's consolidated financial statements have been prepared in accordance with IFRS.

The accounting policies in accordance with IFRS have therefore been applied in preparing the interim financial statements for the three and six-month periods ended June 30, 2011, the comparative information presented in these interim financial statements for the three and six-month periods ended June 30, 2010 and the year ended December 31, 2010.

An explanation of how the transition from previous Canadian GAAP to IFRSs has affected the Corporation's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

**SAVARIA CORPORATION**

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**11 . Explanation of transition to IFRSs (continued)**
**Reconciliation of equity**

	Note	June 30, 2010		
		Canadian GAAP	IFRS adjustments	IFRSs
<b>Assets</b>				
<b>Current assets</b>				
Cash		\$ 4 228 194	\$ -	\$ 4 228 194
Restricted cash		400 000	-	400 000
Trade and other receivables		9 201 681	-	9 201 681
Current portion of long-term loans		81 292	-	81 292
Research and development credits receivable		325 526	-	325 526
Inventories		12 423 946	-	12 423 946
Prepaid expenses		1 205 135	-	1 205 135
Deferred tax assets	a	153 620	(153 620)	-
<b>Total current assets</b>		28 019 394	(153 620)	27 865 774
<b>Non-current assets</b>				
Restricted cash		1 300 000	-	1 300 000
Research and development credits receivable		464 457	-	464 457
Long-term loans		344 548	-	344 548
Fixed assets		1 674 256	-	1 674 256
Goodwill	b	3 913 980	(769 433)	3 144 547
Other intangible assets		2 440 980	-	2 440 980
Long-term investments		4 121 221	-	4 121 221
Deferred tax assets	a	310 806	153 620	464 426
<b>Total non-current assets</b>		14 570 248	(615 813)	13 954 435
<b>Total assets</b>		<b>\$ 42 589 642</b>	<b>\$ (769 433)</b>	<b>\$ 41 820 209</b>

**SAVARIA CORPORATION**

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**11 . Explanation of transition to IFRSs (continued)**
**Reconciliation of equity (continued)**

	Note	June 30, 2010		
		Canadian GAAP	IFRS adjustments	IFRSs
<b>Liabilities</b>				
<b>Current liabilities</b>				
Bank loans		\$ 400 000	\$ -	\$ 400 000
Trade and other payables		6 060 449	-	6 060 449
Deferred revenues		1 274 404	-	1 274 404
Income taxes payable		69 981	-	69 981
Current portion of a note payable relating to a business acquisition		542 474	-	542 474
Current portion of long-term debt	c	1 841 483	971 311	2 812 794
Warranty provision		242 083	-	242 083
Deferred tax liabilities		316 695	-	316 695
<b>Total current liabilities</b>		<b>10 747 569</b>	<b>971 311</b>	<b>11 718 880</b>
<b>Non-current liabilities</b>				
Long-term debt	c	7 956 507	(971 311)	6 985 196
Warranty provision		391 612	-	391 612
Note payable relating to a business acquisition		290 845	-	290 845
Deferred tax liabilities		1 492 099	-	1 492 099
<b>Total non-current liabilities</b>		<b>10 131 063</b>	<b>(971 311)</b>	<b>9 159 752</b>
<b>Total liabilities</b>		<b>20 878 632</b>	<b>-</b>	<b>20 878 632</b>
<b>Equity</b>				
Share capital		12 569 861	-	12 569 861
Share capital to be issued	b.1	1 200 000	(633 000)	567 000
Contributed surplus	d	1 940 914	53 694	1 994 608
Accumulated other comprehensive income		2 186 106	-	2 186 106
Retained earnings	e	3 814 129	(190 127)	3 624 002
<b>Total equity</b>		<b>21 711 010</b>	<b>(769 433)</b>	<b>20 941 577</b>
<b>Total liabilities and equity</b>		<b>\$ 42 589 642</b>	<b>\$ (769 433)</b>	<b>\$ 41 820 209</b>

11 . Explanation of transition to IFRSs (continued)  
Reconciliation of comprehensive income

	Note	Period of three months ended June 30, 2010				Period of six months ended June 30, 2010			
		Canadian GAAP	IFRS reclassifications	IFRS adjustments	IFRSs	Canadian GAAP	IFRS reclassifications	IFRS adjustments	IFRSs
<b>Revenue</b>		\$ 16 939 611	\$ -	\$ -	\$ 16 939 611	\$ 30 182 267	\$ -	\$ -	\$ 30 182 267
<b>Cost of sales</b>		(11 983 086)	(79 226)	-	(12 062 312)	(21 561 016)	(155 435)	-	(21 716 451)
<b>Gross margin</b>		4 956 525	(79 226)	-	4 877 299	8 621 251	(155 435)	-	8 465 816
<b>Operation costs</b>									
Administrative expenses	b.2	-	(1 634 942)	-	(1 634 942)	-	(3 109 617)	(119 918)	(3 229 535)
Selling expenses		-	(1 246 810)	-	(1 246 810)	-	(2 290 412)	-	(2 290 412)
Engineering and research and development expenses		-	(561 639)	-	(561 639)	-	(1 052 140)	-	(1 052 140)
Selling and administrative expenses		(3 220 655)	3 220 655	-	-	(6 061 902)	6 061 902	-	-
Amortization		(3 220 655)	(222 736)	-	(3 443 391)	(6 061 902)	(390 267)	(119 918)	(6 572 087)
Other income (costs)		(301 962)	301 962	-	-	(545 702)	545 702	-	-
<b>Operating income</b>		1 433 908	(584)	-	1 433 324	2 013 647	25 650	(119 918)	1 919 379
Finance income		-	345 273	-	345 273	-	448 919	-	448 919
Finance costs		-	(33 077)	-	(33 077)	-	(446 101)	-	(446 101)
Other revenues and expenses		311 612	(311 612)	-	-	28 468	(28 468)	-	-
<b>Net finance costs</b>		311 612	584	-	312 196	28 468	(25 650)	-	2 818
<b>Income before income tax</b>		1 745 520	-	-	1 745 520	2 042 115	-	(119 918)	1 922 197
Income tax expense		(491 822)	-	-	(491 822)	(609 010)	-	-	(609 010)
<b>Net income for the period</b>		<b>1 253 698</b>	<b>-</b>	<b>-</b>	<b>1 253 698</b>	<b>1 433 105</b>	<b>-</b>	<b>(119 918)</b>	<b>1 313 187</b>
<b>Other comprehensive income</b>									
Change in the fair value of foreign exchange contracts designated as cash flow hedges		522 668	-	-	522 668	1 032 179	-	-	1 032 179
Deferred income tax		(146 195)	-	-	(146 195)	(294 616)	-	-	(294 616)
Losses on foreign exchange contracts transferred to net income in the current period		376 473	-	-	376 473	737 563	-	-	737 563
Deferred income tax		(530 539)	-	-	(530 539)	(826 204)	-	-	(826 204)
Net change in fair value of derivatives designated as cash flow hedges		154 546	-	-	154 546	240 673	-	-	240 673
Unrealized net losses on translation of financial statements of self-sustaining foreign operations		(375 993)	-	-	(375 993)	(585 531)	-	-	(585 531)
<b>Other comprehensive income, net of income tax</b>		480	-	-	480	152 032	-	-	152 032
<b>Total comprehensive income</b>		44 733	-	-	44 733	22 540	-	-	22 540
		45 213	-	-	45 213	174 572	-	-	174 572
<b>Earnings per share:</b>									
Basic		\$ 0,057	\$ -	\$ -	\$ 0,057	\$ 0,065	\$ -	\$ (0,006)	\$ 0,059
Diluted		\$ 0,053	\$ -	\$ -	\$ 0,053	\$ 0,061	\$ -	\$ (0,005)	\$ 0,056



**SAVARIA CORPORATION**  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

**11 . Explanation of transition to IFRS (continued)**

**Notes to the reconciliations**

**(a) Deferred tax assets**

Reclassification of current deferred tax assets to non current assets.

**(b) Goodwill**

	<i>Note</i>	<b>June 30, 2010</b>
Share capital to be issued	<b>b.1</b>	\$ 633 000
Acquisition costs	<b>b.2</b>	136 433
<b>Decrease in goodwill</b>		<b>\$ 769 433</b>

**(b.1)** As part of the acquisition of Concord London in February 2010, the contingent consideration must be recognized at the acquisition date while it is recorded in the second quarter under Canadian GAAP; also, different factors are taken into account while determining the share value, such as the probability that the condition be met. The share value under IFRS amounted to \$567,000 as opposed to \$1,200,000 under Canadian GAAP for a difference of \$633,000.

**(b.2)** Acquisition costs recorded in comprehensive income, including \$16,515 in 2009 and \$119,918 in 2010, instead of being capitalized in the cost of acquisition.

**(c) Long term debt**

Under IFRS, all debts that have matured and have not been renewed by the end of the period must be classified as a current liability as opposed to Canadian GAAP under which the debt must be renewed by the financial statements' date to be classified as a non-current liability. The effect of this difference is to reclassify \$971,311 as at June 30, 2010 from long-term debt to current portion of long-term debt.

**(d) Share-based compensation**

Under IFRS, Savaria records the cost of employee share-based compensation over the vesting period using the graded method of amortization rather than the straight-line method, which was the Corporation's policy under Canadian GAAP. Furthermore, in accordance with IFRS, an estimate is required of the number of options expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to vest, whereas under Canadian GAAP forfeitures of options were recognized as they occurred. The result of this change as at June 30, 2010, is an increase in contributed surplus of \$53,964 and a decrease in retained earnings in the same amount.

**(e) Retained earnings**

The above changes decreased retained earnings (net of related tax) as follows:

	<i>Note</i>	<b>June 30, 2010</b>
Business combination	<b>b.2</b>	\$ 136 433
Share-based compensation	<b>c</b>	53 694
<b>Decrease in retained earnings</b>		<b>\$ 190 127</b>