

SAVARIA CORPORATION
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT JUNE 30, 2013
(Unaudited and not reviewed by the Corporation's independent auditors)

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

| | Note | June 30, 2013 | December 31, 2012 |
|--|------|------------------|----------------------|
| Assets | | | |
| Current assets | | | |
| Cash | | \$ 475 | \$ 1,993 |
| Trade and other receivables | | 12,018 | 11,592 |
| Current portion of long-term loans | | 234 | 410 |
| Tax credits receivable | | 470 | 487 |
| Inventories | | 13,548 | 12,800 |
| Prepaid expenses | | 782 | 538 |
| Current portion of long-term investments | 4 | - | 636 |
| Total current assets | | 27,527 | 28,456 |
| Non-current assets | | | |
| Derivative financial instruments | 9 | 13 | - |
| Tax credits receivable | | 79 | 378 |
| Long-term loans | | 76 | 125 |
| Fixed assets | | 12,355 | 11,792 |
| Goodwill | | 4,051 | 4,051 |
| Intangible assets | | 1,862 | 2,138 |
| Long-term investments | 4 | - | 829 |
| Deposit on purchase of fixed assets | | - | 125 |
| Deferred tax assets | | 1,973 | 1,486 |
| Total non-current assets | | 20,409 | 20,924 |
| Total assets | | \$ 47,936 | \$ 49,380 |
| Liabilities | | | |
| Current liabilities | | | |
| Bank loans | | \$ 259 | \$ - |
| Trade and other payables | | 7,510 | 7,518 |
| Income taxes payable | | 614 | 234 |
| Deferred revenues | | 2,203 | 2,062 |
| Derivative financial instruments | 9 | 907 | 117 |
| Current portion of long-term debt | | 2,729 | 3,619 |
| Warranty provisions | | 366 | 356 |
| Total current liabilities | | 14,588 | 13,906 |
| Non-current liabilities | | | |
| Long-term debt | | 13,196 | 15,464 |
| Warranty provisions | | 532 | 463 |
| Derivative financial instruments | 9 | 1,283 | 174 |
| Deferred tax liabilities | | 124 | 149 |
| Total non-current liabilities | | 15,135 | 16,250 |
| Total liabilities | | 29,723 | 30,156 |
| Equity | | | |
| Share capital | | 13,466 | 13,313 |
| Contributed surplus | | 2,124 | 2,141 |
| Accumulated other comprehensive income | | (1,171) | 306 |
| Retained earnings | | 3,794 | 3,464 |
| Total equity | | 18,213 | 19,224 |
| Total liabilities and equity | | \$ 47,936 | \$ 49,380 |

The notes on pages 7 to 13 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)

| | Note | Periods of three months ended June 30 | | Periods of six months ended June 30 | |
|---|------|--|-----------|--|-----------|
| | | 2013 | 2012 | 2013 | 2012 |
| Revenue | 5 | \$ 19,397 | \$ 17,472 | \$ 36,600 | \$ 32,703 |
| Cost of sales | | (13,484) | (12,597) | (25,753) | (23,597) |
| Gross margin | | 5,913 | 4,875 | 10,847 | 9,106 |
| Operating costs | | | | | |
| Administrative expenses | | (1,770) | (1,724) | (3,320) | (3,344) |
| Selling expenses | | (1,459) | (1,430) | (2,737) | (2,672) |
| Engineering expenses | | (523) | (335) | (1,026) | (805) |
| Research and development expenses | | (211) | (175) | (386) | (357) |
| | | (3,963) | (3,664) | (7,469) | (7,178) |
| Other income (costs) | 6 | (14) | (121) | 336 | (132) |
| Operating income | | 1,936 | 1,090 | 3,714 | 1,796 |
| Finance income | 7 | 201 | 155 | 329 | 107 |
| Finance costs | 7 | (180) | (214) | (376) | (362) |
| Net finance income (costs) | | 21 | (59) | (47) | (255) |
| Income before income tax | | 1,957 | 1,031 | 3,667 | 1,541 |
| Income tax expense | | (532) | (340) | (1,010) | (490) |
| Net income | | 1,425 | 691 | 2,657 | 1,051 |
| Other comprehensive income | | | | | |
| Items that may be reclassified subsequently to income or loss | | | | | |
| Change in the fair value of derivative financial instruments designated as cash flow hedges | | (1,577) | (563) | (1,964) | (180) |
| Deferred income tax | | 395 | 148 | 493 | 51 |
| | | (1,182) | (415) | (1,471) | (129) |
| Gains on foreign exchange contracts transferred to net income in the current period | | (52) | (314) | (139) | (814) |
| Deferred income tax | | 13 | 80 | 35 | 206 |
| | | (39) | (234) | (104) | (608) |
| Net change in fair value of derivative financial instruments designated as cash flow hedges | | (1,221) | (649) | (1,575) | (737) |
| Unrealized net gains (losses) on translation of financial statements of foreign operations | | 67 | 8 | 98 | (14) |
| Other comprehensive loss, net of income tax | | (1,154) | (641) | (1,477) | (751) |
| Total comprehensive income | | \$ 271 | \$ 50 | \$ 1,180 | \$ 300 |
| Earnings per share: | | | | | |
| Basic | | \$ 0.06 | \$ 0.03 | \$ 0.12 | \$ 0.05 |
| Diluted | | \$ 0.06 | \$ 0.03 | \$ 0.11 | \$ 0.05 |

The notes on pages 7 to 13 are an integral part of these unaudited condensed consolidated interim financial statements.

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

| | 2012 | | | | | |
|---|-------------------|------------------|---------------------|--|-------------------|------------------|
| | Share capital | | Contributed surplus | Accumulated other comprehensive income | Retained earnings | Total equity |
| | Number | Amount | | | | |
| Balance at January 1, 2012 | 22,880,864 | \$ 13,260 | \$ 2,114 | \$ 665 | \$ 4,106 | \$ 20,145 |
| <u>Total comprehensive income</u> | | | | | | |
| Net Income | - | - | - | - | 1,051 | 1,051 |
| Other comprehensive income : | | | | | | |
| Change in the fair value of derivative financial instruments designated as cash flow hedges, net of tax | - | - | - | (129) | - | (129) |
| Gains on foreign exchange contracts transferred to net income in the current period, net of tax | - | - | - | (608) | - | (608) |
| Unrealized net losses on translation of financial statements of foreign operations | - | - | - | (14) | - | (14) |
| Other comprehensive loss | - | - | - | (751) | - | (751) |
| Total comprehensive income | - | \$ - | \$ - | \$ (751) | \$ 1,051 | \$ 300 |
| <u>Transactions with owners, recorded directly in equity</u> | | | | | | |
| Cancelled shares following issuer bid | (36,300) | (21) | - | - | (30) | (51) |
| Compensation expense on options granted | - | - | 21 | - | - | 21 |
| Share options exercised | 57,500 | 48 | (9) | - | - | 39 |
| Dividend on common shares | - | - | - | - | (2,175) | (2,175) |
| Total transactions with owners | 21,200 | 27 | 12 | - | (2,205) | (2,166) |
| Balance at June 30, 2012 | 22,902,064 | \$ 13,287 | \$ 2,126 | \$ (86) | \$ 2,952 | \$ 18,279 |

The notes on pages 7 to 13 are an integral part of these unaudited condensed consolidated interim financial statements.

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

| | 2013 | | | | | |
|---|-------------------|------------------|---------------------|--|-------------------|------------------|
| | Share capital | | Contributed surplus | Accumulated other comprehensive income | Retained earnings | Total equity |
| | Number | Amount | | | | |
| Balance at January 1, 2013 | 22,909,564 | \$ 13,313 | \$ 2,141 | \$ 306 | \$ 3,464 | \$ 19,224 |
| <u>Total comprehensive income</u> | | | | | | |
| Net income | - | - | - | - | 2,657 | 2,657 |
| Other comprehensive income : | | | | | | |
| Change in the fair value of derivative financial instruments designated as cash flow hedges, net of tax | - | - | - | (1,471) | - | (1,471) |
| Gains on foreign exchange contracts transferred to net income in the current period, net of tax | - | - | - | (104) | - | (104) |
| Unrealized net gains on translation of financial statements of foreign operations | - | - | - | 98 | - | 98 |
| Other comprehensive loss | - | - | - | (1,477) | - | (1,477) |
| Total comprehensive income | - | \$ - | \$ - | \$ (1,477) | \$ 2,657 | \$ 1,180 |
| <u>Transactions with owners, recorded directly in equity</u> | | | | | | |
| Cancelled shares following issuer bid | (6,200) | (4) | - | - | (6) | (10) |
| Compensation expense on options granted | - | - | 18 | - | - | 18 |
| Share options exercised | 107,500 | 157 | (35) | - | - | 122 |
| Dividends on common shares | - | - | - | - | (2,321) | (2,321) |
| Total transactions with owners | 101,300 | 153 | (17) | - | (2,327) | (2,191) |
| Balance at June 30, 2013 | 23,010,864 | \$ 13,466 | \$ 2,124 | \$ (1,171) | \$ 3,794 | \$ 18,213 |

The notes on pages 7 to 13 are an integral part of these unaudited condensed consolidated interim financial statements.

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

| | Note | Periods of three months ended June 30 | | Periods of six months ended June 30 | |
|---|------|--|-----------------|--|-----------------|
| | | 2013 | 2012 | 2013 | 2012 |
| Cash flows from operating activities | | | | | |
| Net income | | \$ 1,425 | \$ 691 | \$ 2,657 | \$ 1,051 |
| Adjustments for: | | | | | |
| Depreciation of fixed assets | | 208 | 176 | 381 | 353 |
| Amortization of intangible assets | | 182 | 188 | 383 | 380 |
| Change in the fair value of restructured notes and put option | | (73) | (82) | (103) | (57) |
| Income tax expense | | 532 | 340 | 1,010 | 490 |
| Capitalized finance costs on long-term debt | | 9 | 47 | 22 | 84 |
| Compensation expense on share options granted | | 9 | 9 | 18 | 21 |
| Gains on foreign exchange contracts cashed in advance and transferred to net income | | (110) | (234) | (217) | (667) |
| Loss on the sale of fixed assets | | 15 | (37) | 15 | (26) |
| Unrealized foreign exchange loss (gain) on non-current monetary items | | 46 | 31 | 121 | (13) |
| Interest cost | | 170 | 166 | 353 | 278 |
| | | 2,413 | 1,295 | 4,640 | 1,894 |
| Net changes in non-cash operating items | 8 | (490) | 118 | (1,364) | 350 |
| Proceeds from long-term loans | | 143 | 91 | 226 | 175 |
| Income tax paid | | (95) | (71) | (117) | (233) |
| Net cash from operating activities | | 1,971 | 1,433 | 3,385 | 2,186 |
| Cash flows used in investing activities | | | | | |
| Receipts of long-term investments | | 1 | 23 | 25 | 31 |
| Change in restricted cash | | - | 1,000 | - | 1,100 |
| Proceeds from sales of fixed assets | | - | 37 | 14 | 59 |
| Additions to fixed assets | | (402) | (10,105) | (733) | (10,117) |
| Increase in intangible assets | | (51) | - | (143) | - |
| Net cash used in investing activities | | (452) | (9,045) | (837) | (8,927) |
| Cash flows from (used in) financing activities | | | | | |
| Change in bank loans | | 259 | 925 | 259 | 1,375 |
| Increase in long-term debt | | - | 15,631 | - | 15,631 |
| Repayment of borrowings | | (709) | (8,149) | (1,763) | (9,472) |
| Interest paid | | (170) | (170) | (353) | (281) |
| Transaction costs related to a long-term debt | | - | (61) | - | (64) |
| Repurchase of common shares | | (4) | (46) | (10) | (51) |
| Proceeds from exercise of share options | | - | - | 122 | 39 |
| Dividends paid on common shares | | (2,321) | (2,175) | (2,321) | (2,175) |
| Net cash from (used in) financing activities | | (2,945) | 5,955 | (4,066) | 5,002 |
| Net change in cash | | (1,426) | (1,657) | (1,518) | (1,739) |
| Cash at January 1 | | 1,901 | 3,849 | 1,993 | 3,931 |
| Cash at June 30 | | \$ 475 | \$ 2,192 | \$ 475 | \$ 2,192 |

The notes on pages 7 to 13 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, Laval, Quebec. The condensed consolidated interim financial statements of the Corporation as at and for the periods ended June 30, 2013 and 2012 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 mini-vans also for persons with mobility challenges.

The consolidated financial statements of the Corporation as at and for the year ended December 31, 2012 are available upon request from the Corporation's registered office, at www.savaria.com or on SEDAR's website at 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. 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 August 6, 2013.

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, 2012 and 2011, 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.

New accounting standards

The following new standards, and amendments to standards and interpretations have been applied in preparing the condensed consolidated interim financial statements as at June 30, 2013. The adoption of these new standards has not had a material impact on the financial statements.

IFRS 10 - Consolidated Financial Statements

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

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

SAVARIA CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*(Tabular amounts are expressed in thousands of dollars - Unaudited)***3 . Significant accounting policies (continued)****IFRS 13 - Fair Value Measurement**

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

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

Amendments to IAS 1 - Presentation of Financial Statements

The amendments require that an entity present separately the items of OCI that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. Consequently, an entity that presents items of OCI before related tax effects will also have to allocate the aggregated tax amount between these categories.

The existing option to present the profit or loss and other comprehensive income in two statements has remained unchanged.

Amendments to IAS 19 - Employee Benefits

The amendments have an impact on termination benefits, which would now be recognized at the earlier of when the entity recognizes costs for a restructuring within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and when the entity can no longer withdraw the offer of the termination benefits.

4 . Long-term investments

| | June 30, 2013 | December 31, 2012 |
|--|------------------|----------------------|
| Restructured notes (face value of \$1,744,000 as at December 31, 2012) | \$ - | \$ 1,401 |
| Put option | - | 64 |
| | - | 1,465 |
| Current portion | \$ - | \$ 636 |
| Non-current portion | - | 829 |
| | \$ - | \$ 1,465 |

In April 2013, the Corporation exercised its option allowing it to assign ownership of its ineligible asset tracking notes to its financial institution in payment of portion A of the related loan, and also assigned its MAV 2 notes. In order to settle the remaining balance of the two related loans with a carrying value of \$1,817,000, it also disbursed a sum of \$274,000. As a result, a net gain, before income tax, of \$65,000 is recognized in Finance income in the second quarter of 2013.

SAVARIA CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Tabular amounts are expressed in thousands of dollars - Unaudited)
5 . Revenue

| | Periods of three months ended June 30 | | Periods of six months ended June 30 | |
|-----------------------|--|------------------|--|------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Sale of goods | \$ 17,960 | \$ 16,164 | \$ 33,776 | \$ 30,181 |
| Rendering of services | 1,437 | 1,308 | 2,824 | 2,522 |
| | \$ 19,397 | \$ 17,472 | \$ 36,600 | \$ 32,703 |

6 . Other income (costs)

| | Periods of three months ended June 30 | | Periods of six months ended June 30 | |
|--|--|-----------------|--|-----------------|
| | 2013 | 2012 | 2013 | 2012 |
| Gain following the appeal of an assessment related to sales tax ⁽¹⁾ | \$ - | \$ - | \$ 350 | \$ - |
| Moving costs | - | (159) | - | (159) |
| Others | (14) | 38 | (14) | 27 |
| | \$ (14) | \$ (121) | \$ 336 | \$ (132) |

⁽¹⁾ The assessment in question covered a period prior to the acquisition of a company in 2005.

7 . Finance income and finance costs

| | Periods of three months ended June 30 | | Periods of six months ended June 30 | |
|---|--|---------------|--|---------------|
| | 2013 | 2012 | 2013 | 2012 |
| Interest income | \$ 2 | \$ 8 | \$ 4 | \$ 16 |
| Net gain on foreign currency exchange | 126 | 65 | 222 | 35 |
| Change in the fair value of restructured notes and put option | 73 | 82 | 103 | 56 |
| Finance income | \$ 201 | \$ 155 | \$ 329 | \$ 107 |
| Interest on long-term debt | \$ 156 | \$ 194 | \$ 330 | \$ 318 |
| Interest expense and bank charges | 24 | 20 | 46 | 44 |
| Finance costs | \$ 180 | \$ 214 | \$ 376 | \$ 362 |

8 . Net changes in non-cash operating items

| | Periods of three months ended June 30 | | Periods of six months ended June 30 | |
|-----------------------------|--|---------------|--|---------------|
| | 2013 | 2012 | 2013 | 2012 |
| Trade and other receivables | \$ 362 | \$ (1,108) | \$ (426) | \$ (1,360) |
| Tax credits receivable | (76) | (206) | (128) | (161) |
| Inventories | (369) | 360 | (748) | 1,385 |
| Prepaid expenses | 141 | 575 | (244) | (287) |
| Trade and other payables | (302) | 319 | (38) | 435 |
| Deferred revenues | (304) | 175 | 141 | 345 |
| Warranty provision | 58 | 3 | 79 | (7) |
| | \$ (490) | \$ 118 | \$ (1,364) | \$ 350 |

SAVARIA CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

9 . 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:

| | June 30, 2013 | |
|---|------------------|------------------|
| | Carrying amount | Fair value |
| Assets carried at fair value | | |
| Interest rate swap agreements ⁽¹⁾ | \$ 13 | \$ 13 |
| Assets carried at amortized cost | | |
| Cash | \$ 475 | \$ 475 |
| Trade and other receivables | 11,193 | 11,193 |
| Long-term loans | 310 | 300 |
| | \$ 11,978 | \$ 11,968 |
| Liabilities carried at fair value | | |
| Foreign exchange forward contracts ⁽¹⁾ | \$ 2,082 | \$ 2,082 |
| Interest rate swap agreements ⁽¹⁾ | 108 | 108 |
| | \$ 2,190 | \$ 2,190 |
| Liabilities carried at amortized cost | | |
| Trade and other payables | \$ 7,510 | \$ 7,510 |
| Long-term debt | 15,925 | 15,922 |
| | \$ 23,435 | \$ 23,432 |

⁽¹⁾ These financial instruments held at fair value are of level 2.

The basis for determining fair value is disclosed in note 10.

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

| | June 30, 2013 | December 31, 2012 |
|--------------------------------|-----------------|-------------------|
| Non-current assets | | |
| Interest rate derivatives | \$ 13 | \$ - |
| Current liabilities | | |
| Foreign exchange derivatives | \$ 799 | \$ - |
| Interest rate derivatives | 108 | 117 |
| | \$ 907 | \$ 117 |
| Non-current liabilities | | |
| Foreign exchange derivatives | \$ 1,283 | \$ - |
| Interest rate derivatives | - | 174 |
| | \$ 1,283 | \$ 174 |

SAVARIA CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

10 . 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. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

A) Fixed assets

The fair value of fixed assets recognized as a result of a business combination is based on market values. The fair value of items of equipment, office furniture, rolling stock, computer hardware and leasehold improvements is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

B) Intangible assets

The fair value of trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the trademark being owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

C) Inventories

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the common course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

D) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

E) 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.

F) Non-derivatives financial liabilities

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.

SAVARIA CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

10 . Determination of fair values (continued)

G) Share-based payment transactions

The fair value of the share purchase options is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends and the risk-free interest rate (based on government bonds).

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), and the second consists of converting and adapting mini-vans for persons with mobility challenges (Adapted Vehicles).

Periods of
three months ended June 30

| | 2013 | | | 2012 | | |
|--|---------------|------------------|-----------|---------------|------------------|-----------|
| | Accessibility | Adapted Vehicles | Total | Accessibility | Adapted Vehicles | Total |
| External revenues | \$ 15,523 | \$ 3,874 | \$ 19,397 | \$ 13,518 | \$ 3,954 | \$ 17,472 |
| Income before income tax and unallocated amounts | \$ 1,855 | \$ 620 | \$ 2,475 | \$ 1,354 | \$ 428 | \$ 1,782 |

Periods of
six months ended June 30

| | 2013 | | | 2012 | | |
|--|---------------|------------------|-----------|---------------|------------------|-----------|
| | Accessibility | Adapted Vehicles | Total | Accessibility | Adapted Vehicles | Total |
| External revenues | \$ 29,354 | \$ 7,246 | \$ 36,600 | \$ 25,462 | \$ 7,241 | \$ 32,703 |
| Income before income tax and unallocated amounts | \$ 3,586 | \$ 1,169 | \$ 4,755 | \$ 2,384 | \$ 594 | \$ 2,978 |

| | June 30, 2013 | | | June 30, 2012 | | |
|-----------------------|---------------|------------------|-----------|---------------|------------------|-----------|
| | Accessibility | Adapted Vehicles | Total | Accessibility | Adapted Vehicles | Total |
| Segment's assets | \$ 29,364 | \$ 7,690 | \$ 37,054 | \$ 29,008 | \$ 7,957 | \$ 36,965 |
| Segment's liabilities | \$ 8,174 | \$ 2,087 | \$ 10,261 | \$ 8,318 | \$ 1,962 | \$ 10,280 |

SAVARIA CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

11 . Operating segments (continued)

Reconciliations of operating segments and the consolidated balances

| | Periods of three months ended June 30 | | Periods of six months ended June 30 | |
|---|--|----------|--|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| Income before income tax | | | | |
| Total income of segments, before income tax and unallocated amounts | \$ 2,475 | \$ 1,782 | \$ 4,755 | \$ 2,978 |
| Unallocated amounts: | | | | |
| Depreciation and amortization | (390) | (364) | (764) | (733) |
| Net finance costs | (92) | (149) | (274) | (262) |
| Other corporate revenue and expenses ⁽¹⁾ | (36) | (238) | (50) | (442) |
| Income before income tax | \$ 1,957 | \$ 1,031 | \$ 3,667 | \$ 1,541 |
| | | | June 30, | |
| | | | 2013 | 2012 |
| Assets | | | | |
| Total assets of segments | | | \$ 37,054 | \$ 36,965 |
| Unallocated amounts ⁽²⁾ | | | 10,882 | 12,224 |
| Total consolidated assets | | | \$ 47,936 | \$ 49,189 |
| Liabilities | | | | |
| Total liabilities of segments | | | \$ 10,261 | \$ 10,280 |
| Unallocated amounts ⁽³⁾ | | | 19,462 | 20,630 |
| Total consolidated liabilities | | | \$ 29,723 | \$ 30,910 |

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

⁽²⁾ Corporate assets, including a building with a net value of \$10,013,000, not included in the assets of the segments.

⁽³⁾ Corporate liabilities, including long-term debt in the amount of \$15,656,000, not included in the liabilities of the segments.

12 . Subsequent events

On July 17, 2013, the Corporation entered into an agreement with its financial institution for a long-term debt in the amount of \$564,000 to finance the purchase of fixed assets. The terms of the agreement provide for an amortization period of 60 months with monthly principal installments of \$9,400 plus interest, at a fixed rate of 4.11% for the first 36 months.

On July 25, 2013, the Corporation received a sum of \$257,000 representing the repayment of a long-term loan to a director in the amount of \$250,000 plus interest of \$7,000. The loan had been provided in 2007 in relation to the exercise of stock options. Following this repayment, share capital has been increased by \$250,000 and the number of outstanding options has been reduced by 200,000.