

**SAVARIA CORPORATION**  
**CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**AS AT SEPTEMBER 30, 2010**  
**(Unaudited)**

SAVARIA CORPORATION  
CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)

	Periods of Three months ended September 30		Periods of Nine months ended September 30	
	2010	2009	2010	2009
<b>SALES</b>	\$ 17,681,407	\$ 14,592,002	\$ 47,863,674	\$ 40,871,356
<b>OPERATING EXPENSES</b>				
Cost of goods sold	12,621,153	10,812,291	34,182,169	30,259,932
Selling and administrative expenses	3,523,415	2,968,286	9,585,317	8,396,767
Amortization of fixed assets	140,084	104,343	367,566	286,676
Amortization of intangible assets	252,235	107,683	570,455	325,844
	16,536,887	13,992,603	44,705,507	39,269,219
<b>OPERATING EARNINGS</b>	1,144,520	599,399	3,158,167	1,602,137
<b>OTHER REVENUES AND EXPENSES (note 5)</b>	(374,441)	(492,572)	(345,973)	318,555
<b>EARNINGS BEFORE INCOME TAXES</b>	770,079	106,827	2,812,194	1,920,692
<b>INCOME TAXES</b>	243,749	(117,494)	852,759	478,879
<b>NET EARNINGS</b>	\$ 526,330	\$ 224,321	\$ 1,959,435	\$ 1,441,813
<b>Net earnings per common share</b>				
Basic	\$ 0.023	\$ 0.009	\$ 0.087	\$ 0.054
Diluted	\$ 0.023	\$ 0.009	\$ 0.086	\$ 0.054
<b>Average number of common shares outstanding (note 8B)</b>				
Issued	23,063,386	26,078,382	22,458,691	26,762,331
Diluted	23,318,895	26,096,909	22,666,816	26,772,466

SAVARIA CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (Unaudited)

	Periods of Three months ended September 30		Periods of Nine months ended September 30	
	2010	2009	2010	2009
<b>NET EARNINGS</b>	\$ 526,330	\$ 224,321	\$ 1,959,435	\$ 1,441,813
<b>OTHER COMPREHENSIVE INCOME</b>				
Change in the fair value of foreign exchange contracts designated as cash flow hedges	1,117,016	3,785,967	2,149,195	5,607,258
Future income taxes	(302,896)	(1,110,595)	(597,512)	(1,658,667)
	814,120	2,675,372	1,551,683	3,948,591
(Gains) losses on foreign exchange contracts transferred to net income in the current period	(716,018)	647,825	(1,542,222)	2,771,193
Future income taxes	208,576	(200,696)	449,249	(858,515)
	(507,442)	447,129	(1,092,973)	1,912,678
Net change in fair value of derivatives designated as cash flow hedges	306,678	3,122,501	458,710	5,861,269
Unrealized net gains (losses) on translation of financial statements of self-sustaining foreign operations	(14,876)	-	7,664	-
<b>OTHER COMPREHENSIVE EARNINGS</b>	291,802	3,122,501	466,374	5,861,269
<b>COMPREHENSIVE EARNINGS</b>	\$ 818,132	\$ 3,346,822	\$ 2,425,809	\$ 7,303,082

**SAVARIA CORPORATION**  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)  
PERIOD OF NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

	2010						
	Capital stock		Capital stock to be issued	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total
	Number	Amount					
BALANCE as at December 31, 2009, before the reversal of an exercise of stock options following the issuance of an employee loan	22,358,219	\$ 12,883,431	\$ -	\$ 1,856,091	\$ 4,287,498	\$ 2,011,534	\$ 21,038,554
Reversal of an exercise of stock options following the issuance of an employee loan	(200,000)	(250,000)	-	-	-	-	(250,000)
BALANCE as at December 31, 2009	22,158,219	12,633,431	-	1,856,091	4,287,498	2,011,534	20,788,554
Cancelled shares following issuer bid	(111,500)	(63,570)	-	-	(37,750)	-	(101,320)
Shares to be issued in relation to a business acquisition (note 3)	-	-	1,200,000	-	-	-	1,200,000
Shares issued in relation to a business acquisition (note 3)	100,000	117,000	-	-	-	-	117,000
Remuneration expense on options granted	-	-	-	124,701	-	-	124,701
Net earnings	-	-	-	-	1,959,435	-	1,959,435
Dividends on common shares	-	-	-	-	(1,868,724)	-	(1,868,724)
Changes in gains (losses) on foreign exchange contracts designated as cash flow hedges, net of income taxes of \$148,263	-	-	-	-	-	458,710	458,710
Change in foreign currency translation adjustment	-	-	-	-	-	7,664	7,664
BALANCE as at September 30, 2010	22,146,719	\$ 12,686,861	\$ 1,200,000	\$ 1,980,792	\$ 4,340,459	\$ 2,477,908	\$ 22,686,020

	2009						
	Capital stock		Capital stock to be issued	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total
	Number	Amount					
BALANCE as at December 31, 2008, before the reversal of an exercise of stock options following the issuance of an employee loan	27,490,514	\$ 15,815,977	\$ -	\$ 1,745,891	\$ 4,596,187	\$ (4,069,107)	\$ 18,088,948
Reversal of an exercise of stock options following the issuance of an employee loan	(200,000)	(250,000)	-	-	-	-	(250,000)
BALANCE as at December 31, 2008	27,290,514	15,565,977	-	1,745,891	4,596,187	(4,069,107)	17,838,948
Cancelled shares following issuer bid	(5,125,295)	(2,928,549)	-	-	(1,740,421)	-	(4,668,970)
Remuneration expense on options granted	-	-	-	143,089	-	-	143,089
Net earnings	-	-	-	-	1,441,813	-	1,441,813
Dividends on common shares	-	-	-	-	(824,055)	-	(824,055)
Changes in gains (losses) on foreign exchange contracts designated as cash flow hedges, net of income taxes of \$2,517,182	-	-	-	-	-	5,861,269	5,861,269
BALANCE as at September 30, 2009	22,165,219	\$ 12,637,428	\$ -	\$ 1,888,980	\$ 3,473,524	\$ 1,792,162	\$ 19,792,094

**SAVARIA CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

As at September 30      As at December 31  
(Unaudited)

	2010	2009
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,856,944	\$ 4,823,164
Cash and cash equivalents reserved	400,000	400,000
Accounts receivable	11,057,640	7,455,189
Foreign exchange forward contracts	42,494	555,484
Research and development credits receivable	523,185	365,988
Current portion of long-term loans	47,680	26,518
Inventories	14,889,404	12,599,651
Prepaid expenses	1,052,665	813,613
Future income taxes	209,798	602,059
	<b>33,079,810</b>	<b>27,641,666</b>
<b>CASH AND CASH EQUIVALENTS RESERVED</b>	<b>1,200,000</b>	<b>1,500,000</b>
<b>RESEARCH AND DEVELOPMENT CREDITS RECEIVABLE</b>	<b>365,202</b>	<b>557,981</b>
<b>OTHER ASSETS</b>	<b>-</b>	<b>61,910</b>
<b>LONG-TERM INVESTMENTS (note 6)</b>	<b>1,585,250</b>	<b>5,757,785</b>
<b>LONG-TERM LOANS</b>	<b>348,485</b>	<b>105,100</b>
<b>FIXED ASSETS</b>	<b>1,878,041</b>	<b>1,565,784</b>
<b>INTANGIBLE ASSETS</b>	<b>3,348,470</b>	<b>1,390,361</b>
<b>GOODWILL</b>	<b>5,096,791</b>	<b>506,230</b>
<b>FUTURE INCOME TAXES</b>	<b>399,839</b>	<b>801,130</b>
	<b>\$ 47,301,888</b>	<b>\$ 39,887,947</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Bank loans	\$ -	\$ 1,080,000
Accounts payable	7,561,051	6,248,985
Deferred revenues	1,598,771	415,025
Income taxes payable	125,919	-
Future income taxes	202,506	-
Current portion of notes payable relating to business acquisitions	1,168,622	-
Warranty provision	299,719	263,970
Current portion of long-term debt (note 7)	2,249,436	1,844,859
	<b>13,206,024</b>	<b>9,852,839</b>
<b>WARRANTY PROVISION</b>	<b>356,560</b>	<b>394,494</b>
<b>LONG-TERM DEBT (note 7)</b>	<b>9,004,492</b>	<b>8,852,060</b>
<b>NOTES PAYABLE RELATING TO BUSINESS ACQUISITIONS</b>	<b>1,672,429</b>	<b>-</b>
<b>FUTURE INCOME TAXES</b>	<b>376,363</b>	<b>-</b>
	<b>24,615,868</b>	<b>19,099,393</b>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock	12,686,861	12,633,431
Capital stock to be issued	1,200,000	-
Contributed surplus	1,980,792	1,856,091
Retained earnings	4,340,459	4,287,498
Accumulated other comprehensive income	2,477,908	2,011,534
	<b>6,818,367</b>	<b>6,299,032</b>
	<b>22,686,020</b>	<b>20,788,554</b>
	<b>\$ 47,301,888</b>	<b>\$ 39,887,947</b>

**ON BEHALF OF THE BOARD OF DIRECTORS**

  
\_\_\_\_\_, Director  
Marcel Bourassa

  
\_\_\_\_\_, Director  
Jean-Marie Bourassa C.A.

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

	Periods of Three months ended September 30		Periods of Nine months ended September 30	
	2010	2009	2010	2009
<b>OPERATING ACTIVITIES</b>				
Net earnings	\$ 526,330	\$ 224,321	\$ 1,959,435	\$ 1,441,813
Adjustments for :				
Amortization of fixed assets	140,084	104,343	367,566	286,676
Amortization of intangible assets	252,235	107,683	570,455	325,844
Put option (note 6)	1,165	450,603	80,809	(409,315)
Change in the fair value of restructured notes (note 6)	45,142	(524,058)	(94,067)	(500,071)
Future income taxes	74,939	(183,792)	632,280	346,338
Capitalized interest on long-term debt and notes payable	124,688	32,472	180,927	103,121
Remuneration expense on stock options granted	39,878	49,891	124,701	143,089
Change in the value of foreign exchange contracts cashed-in in advance	(249,036)	1,001,000	1,119,963	2,046,000
Loss (gain) on disposal of fixed assets	-	-	500	(7,660)
Non-materialized gain on foreign currency exchange on long-term monetary items	(81,589)	(195,048)	(37,359)	(424,452)
	873,836	1,067,415	4,905,210	3,351,383
Net changes in non-cash items related to operations (note 4)	(568,838)	175,673	(1,748,790)	525,447
<b>Cash flows from operating activities</b>	<b>304,998</b>	<b>1,243,088</b>	<b>3,156,420</b>	<b>3,876,830</b>
<b>INVESTING ACTIVITIES</b>				
Business acquisitions (note 3)	(3,251,936)	-	(4,144,637)	-
Change in long-term investments	2,489,664	120,507	4,185,793	946,102
Change in cash and cash equivalents reserved	100,000	(2,000,000)	300,000	(2,000,000)
Proceeds from disposal of fixed assets	-	-	32,160	11,108
Additions to fixed assets	(67,842)	(48,240)	(218,498)	(120,699)
Increase in amortizable intangible assets	(55,006)	(58,323)	(510,625)	(281,435)
Increase in long-term loans	-	-	(233,655)	-
Proceeds from long-term loans	17,330	16,671	44,216	76,393
<b>Cash flows used in investing activities</b>	<b>(767,790)</b>	<b>(1,969,385)</b>	<b>(545,246)</b>	<b>(1,368,531)</b>
<b>FINANCING ACTIVITIES</b>				
Changes in bank loans	(400,000)	330,000	(1,080,000)	20,000
Increase in long-term debt (note 7)	2,000,000	4,000,000	2,040,605	7,700,095
Repayment of long-term debt	(508,458)	(421,504)	(1,567,955)	(4,945,919)
Dividends paid on common shares	-	-	(1,868,724)	(824,055)
Shares repurchased for cancellation	-	(4,364,195)	(101,320)	(4,668,970)
<b>Cash flows from (used in) financing activities</b>	<b>1,091,542</b>	<b>(455,699)</b>	<b>(2,577,394)</b>	<b>(2,718,849)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>628,750</b>	<b>(1,181,996)</b>	<b>33,780</b>	<b>(210,550)</b>
<b>CASH AND CASH EQUIVALENTS at the beginning of the period</b>	<b>4,228,194</b>	<b>6,174,226</b>	<b>4,823,164</b>	<b>5,202,780</b>
<b>CASH AND CASH EQUIVALENTS at the end of the period</b>	<b>\$ 4,856,944</b>	<b>\$ 4,992,230</b>	<b>\$ 4,856,944</b>	<b>\$ 4,992,230</b>

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

## **1. CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The unaudited consolidated interim financial statements were prepared by the Corporation in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") applicable to interim financial statements and follow the same accounting policies and methods of their application as the most recent annual financial statements, except for the new accounting policy mentioned below. In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the interim financial statements. Such adjustments are of a normal and recurring nature. The unaudited consolidated interim financial statements have not been reviewed by the Corporation's external auditor and should be read in conjunction with the audited annual consolidated financial statements and notes thereto for the year ended December 31, 2009.

Change in functional currency of a self-sustaining foreign operation

Effective January 1, 2010, the Corporation adopted the Chinese Renminbi as the functional currency of its Chinese subsidiary as a result of the continued decentralization of its management, of the development of a local market for its products and services and of its cash flows no longer being dependent upon its parent company's activities. Prior to that date, the subsidiary was considered to be an integrated foreign operation with the Canadian dollar as its functional currency.

## **2. CHANGES IN ACCOUNTING POLICIES**

### **Future Accounting Changes**

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

In 2009, the CICA issued three new accounting standards: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements, and Section 1602, Non-Controlling Interests. These new standards will apply to the Corporation's financial statements for the fiscal year beginning on January 1, 2011. The Corporation is in the process of evaluating the requirements of the new standards.

Section 1582 replaces Section 1581, and establishes standards for the recognition of a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3, Business Combinations. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Sections 1601 and 1602 replace Section 1600, Consolidated Financial Statements. Section 1601, establishes standards for the preparation of consolidated financial statements. It applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for the recognition of a non-controlling interest in a subsidiary. It is equivalent to the corresponding provisions of International Accounting Standard IAS 27, Consolidated and Separate Financial Statements, and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

*International Financial Reporting Standards ("IFRS")*

In February 2008, Canada's Accounting Standards Board confirmed that Canadian GAAP, as used by public Corporations, will be superseded by IFRS for fiscal years beginning on or after January 1, 2011. The Corporation will be required to report under IFRS for its interim and annual financial statements for the fiscal year ending December 31, 2011.

**SAVARIA CORPORATION**

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2010

**3. BUSINESS ACQUISITIONS**

On February 1, 2010, the Corporation acquired 100% of the outstanding common shares of Concord Elevator (London) Ltd, a retailer specialized in the installation and maintenance of elevators and platform lifts in the province of Ontario. The agreement provides 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 a rate of 6.5%. The transaction includes a potential 1 million common shares to be issued one year after the signing of the agreement if certain conditions are met.

In the second quarter, given the certainty that the said conditions will be met, the shares to be issued have been booked in the amount of \$1,200,000 under the heading of capital stock to be issued. In addition, an intangible asset in the amount of \$700,000, represented by maintenance contracts, has been recognized causing an increase in current future income tax liabilities of \$20,300 and long-term future income tax liabilities of \$157,500. Conversely, goodwill has increased by \$677,800.

On July 19, 2010, the subsidiary Savaria Lifts Ltd acquired certain assets and liabilities of Concord Elevator (Alberta) Ltd, 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 a rate of 6.5%.

On August 2, 2010, the corporation acquired 100% of the outstanding common shares of Freedom Motors Inc. "Freedom" and The Liberty Motor Co. Inc. "Liberty", both specializing in the conversion of mini-vans for people with disabilities. The agreement for Freedom provides 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 agreement for Liberty provides 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 notes payable related to these acquisitions bear no interest and were recorded at their estimated fair value based on the net present value of the future cash flows calculated a rate of 6.5%.

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. Since certain information is not yet available, the breakdown of the purchase prices presented below is preliminary and is based on the Corporation's estimates.

	Concord Elevator (London) Ltd	Concord Elevator (Alberta) Ltd	Freedom Motors Inc.	The Liberty Motor Co. Inc.	Total
<b>Assets acquired</b>					
Cash	\$ 727,217	\$ -	\$ -	\$ -	\$ 727,217
Current asset items	1,497,478	87,795	1,909,906	2,176,988	5,672,167
Fixed assets	221,377	9,500	111,172	148,725	490,774
Amortizable intangible assets	913,000	170,000	668,639	270,000	2,021,639
Goodwill	3,407,750	290,546	829,544	62,721	4,590,561
	6,766,822	557,841	3,519,261	2,658,434	13,502,358
<b>Liability assumed</b>					
Bank indebtedness	-	-	22,187	15,953	38,140
Current liability items	1,619,636	205,142	291,647	1,967,284	4,083,709
Future income taxes	240,325	-	104,446	84,682	429,453
Long-term debt	35,855	4,192	-	-	40,047
Note payable	-	-	-	110,207	110,207
	\$ 1,895,816	\$ 209,334	\$ 418,280	\$ 2,178,126	\$ 4,701,556

**SAVARIA CORPORATION**

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2010

**3. BUSINESS ACQUISITIONS (Cont'd)**

	Concord Elevator (London) Ltd	Concord Elevator (Alberta) Ltd	Freedom Motors Inc.	The Liberty Motor Co. Inc.	Total
Fair value of net assets acquired	\$ 4,871,006	\$ 348,507	\$ 3,100,981	\$ 480,308	\$ 8,800,802
Less: Transaction costs paid in 2009	16,515	-	-	-	16,515
Cash (bank indebtedness) in acquired operations	727,217	-	(22,187)	(15,953)	689,077
Expenses to be paid	-	-	-	30,000	30,000
Capital stock to be issued	1,200,000	-	-	-	1,200,000
Capital stock issued	-	-	-	117,000	117,000
Notes payable, current portion	542,474	100,000	469,000	-	1,111,474
Note payable, long-term portion	1,492,099	-	-	-	1,492,099
Cash flows related to the acquisitions	\$ 892,701	\$ 248,507	\$ 2,654,168	\$ 349,261	\$ 4,144,637

Of the \$2,021,639 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 \$4,590,561 of goodwill was assigned to the Accessibility and the Adapted transport segments in the amount of \$3,698,296 and \$892,265 respectively. Of that total amount, \$149,840 is expected to be deductible for tax purposes.

**4. NET CHANGES IN NON-CASH ITEMS RELATED TO OPERATIONS**

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Accounts receivable	\$ (381,409)	\$ (26,080)	\$ (1,246,103)	\$ 766,743
Research and development credits receivable	118,382	47,615	267,279	179,020
Inventories	(137,552)	(1,004,851)	483,909	(2,744,813)
Prepaid expenses	250,446	94,090	(64,138)	(236,653)
Accounts payable	(623,417)	526,209	(1,377,683)	1,832,644
Deferred revenues	177,625	582,796	115,647	853,515
Income taxes payable	(123,601)	-	(53,620)	-
Warranty reserve	150,688	(44,106)	125,919	(125,009)
	\$ (568,838)	\$ 175,673	\$ (1,748,790)	\$ 525,447

**5. OTHER REVENUES AND EXPENSES**

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Interest and dividend income	\$ 10,600	\$ 5,470	\$ 46,691	\$ 35,246
(Loss) gain on foreign currency exchange	(106,579)	(471,582)	46,034	(316,823)
Interest on long-term debt and notes payable	(191,453)	(70,842)	(369,577)	(223,046)
Interest expense and bank charges	(44,540)	(29,073)	(111,867)	(98,278)
Put option (note 6)	(1,164)	(450,603)	(80,809)	409,315
Change in the fair value of restructured notes (note 6)	(45,143)	524,058	94,067	500,071
Gain (loss) on disposal of fixed assets	1,309	-	(598)	7,660
Other revenues	2,529	-	30,086	4,410
	\$ (374,441)	\$ (492,572)	\$ (345,973)	\$ 318,555

**SAVARIA CORPORATION**

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2010

**6. LONG-TERM INVESTMENTS**

	As at September 30	As at December 31
	<b>2010</b>	2009
Restructured notes (face value of \$2,058,973, \$2,185,039 in 2009)	<b>\$ 1,317,842</b>	\$ 1,309,568
Put option	<b>267,408</b>	348,217
	<b>1,585,250</b>	1,657,785
Guaranteed investment certificate (fair value of \$4,100,000 in 2009)	-	4,100,000
	<b>\$ 1,585,250</b>	\$ 5,757,785

The Corporation holds restructured notes with a face value of \$2,058,973 (US \$2,000,946). These notes were issued in replacement of Asset Backed Commercial Paper ("ABCP") formerly held by the Corporation. Pursuant to the terms of a restructuring plan, holders of ABCP had their short-term commercial paper exchanged for longer term notes whose maturities match those of the assets previously contained in the underlying conduits.

The restructured notes are classified as held-for-trading financial instruments.

*Evaluation*

The fair value estimate of the restructured notes has been calculated based on information provided by the Pan-Canadian Investor Committee, Ernst & Young Inc., the Monitor of the restructuring, and BlackRock Canada Ltd., the asset administrator.

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.

During the first three quarters, the fair value of the restructured notes was affected by a number of positive factors.

In spite of some volatility in credit spreads as the markets reacted to the debt crisis in Greece, there was a steady improvement in general corporate credit conditions during the nine-month period. This reduction in credit risk had a positive impact on the intrinsic value of the restructured notes due to a general lowering of default risk and a decrease in the likelihood that credit risk limits built into the notes will be exceeded. Accordingly, the Required Yield on the notes has been reduced to reflect this easing in credit markets.

It is anticipated that the MAV 2 Class A1 notes will continue to miss interest payments as long as interest rates remain at the currently very low levels. Given Bank of Canada's statements and the movement in interest rate markets, the Corporation projects that no interest payments will be made until the last quarter of the current fiscal year, although this represents an improvement compared with previous assumptions. This improvement had a positive impact on the valuation of those notes.

Another influencing factor is the simple passage of time. As with all debt instruments, the value of the notes will approach par as the maturity date approaches providing that they do not default.

The most influencing factor during the first three quarters was the increase in the value of certain assets-tracking notes. Thus, the MAV 2 Class 13 and MAV 3 Class 25 asset-tracking notes benefited from an increase in their value during the nine-month period, which had a positive impact on the value of those notes.

**SAVARIA CORPORATION**

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

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**6. LONG-TERM INVESTMENTS (Cont'd)**

The impact of these factors was an increase in the fair value of the restructured notes during the first three quarters. As a result of this analysis, the Corporation estimated the fair value of these notes to be \$1,317,842 (US \$1,280,702) as at September 30, 2010. Accordingly, the Corporation recorded a \$94,067 gain during the first three quarters as partial reversal of losses recorded in prior periods. Following this gain in value, there remains a balance of the reserve for impairment of \$741,131 (US \$720,244). 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 quarters. 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 first three quarters, the Corporation received a total of \$85,793 (US \$82,083) in repayment of certain restructured notes. The amounts received were used as a partial reimbursement on loans secured by the restructured notes. As at September 30, 2010, the fair value of the restructured notes is estimated at \$1.3 million (US \$1.3 million) broken down as follows:

Restructured Categories	Thousands US \$		Expected Maturity Date
	Face Value	Estimated Fair Value	
MAV 2 Notes			
A1 (rated A)	835.4	677.9	July 15, 2056
C	25.9	0.3	July 15, 2056
Traditional asset-tracking notes			
MAV 3 - Class 14	51.1	46.5	January 1, 2021
Ineligible asset-tracking notes			
MAV 2 - Class 13	131.5	23.3	March 20, 2014
MAV 3 - Class 25	957.0	532.7	December 25, 2036
Total investments	2,000.9	1,280.7	

On March 16, 2009, the Corporation signed two long-term financing agreements with its financial institution. The first agreement, having a balance of US \$912,372 as at September 30, 2010, matures in March 2012 and is renewable for one-year periods up to a maximum of four renewal periods. The second agreement, having a balance of US \$1,088,574 as at September 30, 2010, matures in March 2011 and is renewable for one-year periods up to a maximum of five renewal periods. Any renewal of these two agreements is subject to the financial institution's approval.

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 September 30, 2010, the Corporation estimated the fair value of this option at \$267,408 (US\$259,872).

The Corporation also holds an option to assign to the bank the ownership of its MAV 2 notes and traditional asset-tracking notes as well as any proceeds therefrom as payment of 45% of the principal on the related debt. As at September 30, 2010, the Corporation estimated the fair value of this option to be nil.

**7. LONG-TERM DEBT**

During the year, the Corporation signed a long-term financing agreement with its financial institution in the amount of \$2 million in order to finance its acquisition of Freedom and of Liberty. The agreement provides for an interest rate of prime plus 1% as well as the reimbursement of the debt by equal monthly payments of \$33,333 plus interest, maturing in September 2015. A mortgage of \$2 million on the overall assets of the subsidiaries Savaria Concord Lifts Inc., Freedom and Liberty is pledged as security.

**SAVARIA CORPORATION**

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**8. CAPITAL STOCK**
**A) Authorized :**

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

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

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

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

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Weighted average number of shares outstanding	23,063,386	26,078,382	22,458,691	26,762,331
Effect of potential dilutive securities due to stock options	255,509	18,527	208,125	10,135
Weighted average number of shares outstanding for use in determining diluted earnings per share	23,318,895	26,096,909	22,666,816	26,772,466

**9. SEGMENTED INFORMATION**

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

The business sectors are detailed as follows :

	Three months ended September 30					
	2010			2009		
	Accessibility	Adapted transport	Total	Accessibility	Adapted transport	Total
Sales	\$ 13,245,472	\$ 4,435,935	\$ 17,681,407	\$ 11,820,710	\$ 2,771,292	\$ 14,592,002
Operating earnings	1,070,068	74,452	1,144,520	539,664	59,735	599,399
Net earnings (loss)	548,966	(22,636)	526,330	189,107	35,214	224,321
Amortization	334,798	57,521	392,319	175,039	36,987	212,026
Additions to fixed assets	67,842	-	67,842	43,251	4,989	48,240

	Nine months ended September 30					
	2010			2009		
	Accessibility	Adapted transport	Total	Accessibility	Adapted transport	Total
Sales	\$ 37,944,557	\$ 9,919,117	\$ 47,863,674	\$ 32,402,774	\$ 8,468,582	\$ 40,871,356
Operating earnings	3,156,107	2,060	3,158,167	1,314,431	287,706	1,602,137
Net earnings (loss)	2,050,468	(91,033)	1,959,435	1,132,706	309,107	1,441,813
Amortization	802,349	135,672	938,021	528,640	83,880	612,520
Additions to fixed assets	218,498	-	218,498	99,527	21,172	120,699

**9. SEGMENTED INFORMATION (Cont'd)**

As at September 30

	2010			2009		
	Accessibility	Adapted transport	Total	Accessibility	Adapted transport	Total
Assets	\$ 38,897,155	\$ 8,404,733	\$ 47,301,888	\$ 36,778,575	\$ 4,758,088	\$ 41,536,663
Goodwill	4,204,526	892,265	5,096,791	506,230	-	506,230

Information by geographic region is as follows:

Three months ended September 30      Nine months ended September 30

	Sales			
	2010	2009	2010	2009
	United States	\$ 7,635,201	\$ 7,016,607	\$ 20,880,617
Canada	8,422,969	5,932,597	22,357,837	17,767,939
Europe and elsewhere	1,623,237	1,642,798	4,625,220	3,737,549
	\$ 17,681,407	\$ 14,592,002	\$ 47,863,674	\$ 40,871,356

As at September 30      As at December 31

	Fixed assets and goodwill	
	2010	2009
	Canada	\$ 6,784,171
Europe and elsewhere	190,661	148,237
	\$ 6,974,832	\$ 2,072,014

**10. COMPARATIVE FIGURES**

Certain figures have been reclassified to conform to the presentation adopted in 2010.