

**SAVARIA CORPORATION**  
**CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**AS AT JUNE 30, 2007**  
**(Unaudited)**

**SAVARIA CORPORATION**  
**CONSOLIDATED EARNINGS AND COMPREHENSIVE INCOME (Unaudited)**

|   | Periods of<br>Three months ended June 30 |               | Periods of<br>Six months ended June 30 |               |
|---|--|---------------|--|---------------|
|   | 2007                                     | 2006          | 2007                                   | 2006          |
| <b>SALES</b>  | <b>\$ 15,156,925</b>                     | \$ 16,061,138 | <b>\$ 29,602,494</b>                   | \$ 31,724,434 |
| <b>OPERATING EXPENSES</b>   |  |               |  |               |
| Cost of goods sold  | 11,767,169                               | 11,719,041    | 22,540,259                             | 23,402,654    |
| Selling and administrative expenses   | 2,462,174                                | 3,134,990     | 5,139,506                              | 6,085,652     |
| Amortization of fixed assets  | 130,187                                  | 136,621       | 259,089                                | 283,866       |
| Amortization of deferred charges  | 74,333                                   | 65,580        | 145,433                                | 107,087       |
| Amortization of intangible assets   | 60,945                                   | 81,249        | 96,759                                 | 168,860       |
| Write-off of intangible assets  | -  | 196,871       | 10,004                                 | 196,871       |
|   | <b>14,494,808</b>                        | 15,334,352    | <b>28,191,050</b>                      | 30,244,990    |
| <b>OPERATING EARNINGS</b>   | <b>662,117</b>                           | 726,786       | <b>1,411,444</b>                       | 1,479,444     |
| <b>OTHER REVENUES AND CHARGES (note 4)</b>  | <b>(680,354)</b>                         | (156,277)     | <b>(761,738)</b>                       | (113,105)     |
| <b>EARNINGS (LOSSES) before income taxes</b>  | <b>(18,237)</b>                          | 570,509       | <b>649,706</b>                         | 1,366,339     |
| <b>INCOME TAXES</b>   | <b>(71,899)</b>                          | (483,661)     | <b>(101,042)</b>                       | (735,900)     |
| <b>NET EARNINGS (LOSSES)</b>  | <b>\$ (90,136)</b>                       | \$ 86,848     | <b>\$ 548,664</b>                      | \$ 630,439    |
| <b>OTHER COMPREHENSIVE INCOME, NET OF INCOME TAXES:</b>   |  |               |  |               |
| Unrealized gains on foreign exchange contracts designated as cash flow hedges   | 232,734                                  | -             | 285,808                                | -             |
| Unrealized losses (gains) on foreign exchange contracts designated as cash flow hedges in prior periods transferred to net income in the current period | (10,603)                                 | -             | 71,173                                 | -             |
| <b>OTHER COMPREHENSIVE INCOME</b>   | <b>222,131</b>                           | -             | <b>356,981</b>                         | -             |
| <b>COMPREHENSIVE INCOME</b>   | <b>\$ 131,995</b>                        | \$ 86,848     | <b>\$ 905,645</b>                      | \$ 630,439    |
| <b>Net earnings (losses) per common share:</b>  |  |               |  |               |
| Basic   | <b>\$ (0.003)</b>                        | \$ 0.003      | <b>\$ 0.019</b>                        | \$ 0.021      |
| Diluted   | -  | \$ 0.003      | <b>\$ 0.019</b>                        | \$ 0.021      |
| <b>Average number of common shares outstanding (note 5B)</b>  |  |               |  |               |
| Issued  | <b>28,678,614</b>                        | 29,695,718    | <b>28,690,739</b>                      | 29,717,360    |
| Diluted   | <b>28,701,714</b>                        | 29,900,231    | <b>28,738,054</b>                      | 29,931,375    |

**SAVARIA CORPORATION**  
**CONSOLIDATED RETAINED EARNINGS (Unaudited)**  
**PERIODS OF SIX MONTHS ENDED JUNE 30**

|  | 2007                | 2006         |
|--|---------------------|--------------|
| <b>BALANCE</b> beginning of period   | <b>\$ 8,793,905</b> | \$ 8,300,945 |
| <b>NET EARNINGS</b>  | <b>548,664</b>      | 630,439      |
|  | <b>9,342,569</b>    | 8,931,384    |
| <b>Excess of purchase price over average stated capital<br/>of shares purchased for cancellation</b> | <b>(803,705)</b>    | (136,866)    |
| <b>DIVIDENDS on common shares</b>  | <b>(2,357,404)</b>  | (651,931)    |
| <b>BALANCE</b> end of period   | <b>\$ 6,181,460</b> | \$ 8,142,587 |
|  |                     |              |

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

|   | As at June 30<br>(Unaudited) | As at December 31    |
|---|------------------------------|----------------------|
|   | 2007                         | 2006                 |
| <b>ASSETS</b>                                   |                              |                      |
| <b>CURRENT ASSETS</b>                           |                              |                      |
| Cash and cash equivalents                       | \$ 4,782,809                 | \$ 5,958,518         |
| Temporary investments                           | -                            | 988,586              |
| Accounts receivable                             | 9,408,692                    | 10,393,264           |
| Inventories                                     | 9,654,183                    | 9,674,333            |
| Prepaid expenses                                | 920,771                      | 447,652              |
| Income taxes receivable                         | 156,292                      | 320,968              |
| Current portion of long-term loans              | 124,027                      | 160,825              |
| Future income taxes                             | 1,460,077                    | 1,642,953            |
|   | <b>26,506,851</b>            | <b>29,587,099</b>    |
| <b>FIXED ASSETS</b>                             | <b>4,895,775</b>             | <b>5,061,349</b>     |
| <b>DEFERRED DEVELOPMENT COSTS</b>               | <b>596,683</b>               | <b>511,801</b>       |
| <b>INTANGIBLE ASSETS</b>                        | <b>1,375,327</b>             | <b>1,358,123</b>     |
| <b>GOODWILL</b>                                 | <b>506,230</b>               | <b>506,230</b>       |
| <b>LONG-TERM LOAN TO A RELATED PARTY</b>        | <b>250,000</b>               | <b>-</b>             |
| <b>LONG-TERM LOANS</b>                          | <b>175,791</b>               | <b>247,547</b>       |
| <b>FUTURE INCOME TAXES</b>                      | <b>3,045,532</b>             | <b>2,988,545</b>     |
|   | <b>\$ 37,352,189</b>         | <b>\$ 40,260,694</b> |
| <b>LIABILITIES</b>                              |                              |                      |
| <b>CURRENT LIABILITIES</b>                      |                              |                      |
| Bank loans                                      | \$ 400,000                   | \$ 650,000           |
| Accounts payable                                | 7,141,177                    | 7,189,372            |
| Warranty provision                              | 286,825                      | 280,607              |
| Foreign exchange forward contracts              | 5,261                        | -                    |
| Current portion of long-term debt               | 755,756                      | 770,382              |
|   | <b>8,589,019</b>             | <b>8,890,361</b>     |
| <b>LONG-TERM DEBT</b>                           | <b>4,079,090</b>             | <b>4,495,170</b>     |
| <b>WARRANTY PROVISION</b>                       | <b>504,554</b>               | <b>538,647</b>       |
|   | <b>13,172,663</b>            | <b>13,924,178</b>    |
| <b>SHAREHOLDERS' EQUITY</b>                     |                              |                      |
| Capital stock (note 5A)                         | 16,370,013                   | 16,244,789           |
| Contributed surplus                             | 1,357,900                    | 1,297,822            |
| Retained earnings                               | 6,181,460                    | 8,793,905            |
| Accumulated other comprehensive income (note 6) | 270,153                      | -                    |
|   | <b>24,179,526</b>            | <b>26,336,516</b>    |
|   | <b>\$ 37,352,189</b>         | <b>\$ 40,260,694</b> |

**ON BEHALF OF THE BOARD OF DIRECTORS**

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

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

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

|  | Periods of<br>Three months ended June 30 |                     | Periods of<br>Six months ended June 30 |                     |
|--|--|---------------------|--|---------------------|
|  | 2007                                     | 2006                | 2007                                   | 2006                |
| <b>OPERATING ACTIVITIES</b>  |  |                     |  |                     |
| Net earnings (losses)  | \$ (90,136)                              | \$ 86,848           | \$ 548,664                             | \$ 630,439          |
| Adjustments for:   |  |                     |  |                     |
| Amortization of fixed assets   | 130,187                                  | 136,621             | 259,089                                | 283,866             |
| Amortization of deferred development costs                           | 74,333                                   | 65,580              | 145,433                                | 107,087             |
| Amortization of intangible assets                                    | 60,945                                   | 81,249              | 96,759                                 | 168,860             |
| Write-off of intangible assets                                       | -  | 196,871             | 10,004                                 | 196,871             |
| Future income taxes  | (54,191)                                 | 451,653             | (8,197)                                | 404,894             |
| Remuneration expense on options granted                              | 35,747                                   | 43,094              | 60,078                                 | 115,214             |
| Non realized gain on foreign exchange contracts cashed-in in advance | 409,500                                  | -                   | 409,500                                | -                   |
| Warranty expense   | (14,168)                                 | 74,370              | (27,875)                               | 131,377             |
| Loss on disposal of fixed assets                                     | -  | (2,406)             | 4,297                                  | 1,100               |
| Others   | 30,145                                   | 26,525              | 33,507                                 | 20,898              |
|  | 582,362                                  | 1,160,405           | 1,531,259                              | 2,060,606           |
| Net changes in non-cash working capital items (note 3)               | 415,461                                  | (1,757,354)         | 618,949                                | (1,793,682)         |
| Cash flows from (used in) operating activities                       | 997,823                                  | (596,949)           | 2,150,208                              | 266,924             |
| <b>INVESTING ACTIVITIES</b>  |  |                     |  |                     |
| Changes in temporary investments                                     | 998,277                                  | -                   | 988,586                                | 3,940,360           |
| Proceeds from disposal of fixed assets                               | -  | 44,256              | 500                                    | 44,256              |
| Additions to fixed assets  | (73,615)                                 | (52,455)            | (98,312)                               | (124,790)           |
| Deferred development costs   | (35,159)                                 | (82,909)            | (230,315)                              | (187,834)           |
| Deferred start-up costs  | -  | (6,328)             | -                                      | (39,450)            |
| Additions to other assets  | (123,967)                                | -                   | (123,967)                              | -                   |
| Increase of long-term loans  | -  | -                   | -                                      | (113,900)           |
| Proceeds from long-term loans  | 63,926                                   | 18,861              | 104,182                                | 18,861              |
| Cash flows from (used in) investing activities                       | 829,462                                  | (78,575)            | 640,674                                | 3,537,503           |
| <b>FINANCING ACTIVITIES</b>  |  |                     |  |                     |
| Changes in bank loans  | (60,000)                                 | 630,000             | (250,000)                              | 630,000             |
| Increase in long-term debt   | -  | 500,000             | -                                      | 500,000             |
| Repayment of long-term debt  | (354,939)                                | (404,550)           | (430,706)                              | (456,081)           |
| Dividends paid on common shares                                      | (2,357,404)                              | (651,931)           | (2,357,404)                            | (651,931)           |
| Shares repurchased for cancellation                                  | (551,705)                                | (83,121)            | (1,153,481)                            | (206,725)           |
| Issuance of shares   | -  | -                   | 225,000                                | -                   |
| Cash flows from (used in) financing activities                       | (3,324,048)                              | (9,602)             | (3,966,591)                            | (184,737)           |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                       | <b>(1,496,763)</b>                       | <b>(685,126)</b>    | <b>(1,175,709)</b>                     | <b>3,619,690</b>    |
| <b>CASH AND CASH EQUIVALENTS</b> beginning of period                 | <b>6,279,572</b>                         | <b>8,848,015</b>    | <b>5,958,518</b>                       | <b>4,543,199</b>    |
| <b>CASH AND CASH EQUIVALENTS</b> end of period                       | <b>\$ 4,782,809</b>                      | <b>\$ 8,162,889</b> | <b>\$ 4,782,809</b>                    | <b>\$ 8,162,889</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 policies mentioned below in note 2. 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 should be read in conjunction with the audited annual consolidated financial statements and notes thereto for the year ended December 31, 2006.

## 2. CHANGES IN ACCOUNTING POLICIES

### A) 2007

On January 1, 2007, the Corporation adopted the following recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook:

#### *Section 3855: Financial Instruments – Recognition and Measurement*

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

This Section requires that:

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

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

#### *Section 1530: Comprehensive Income*

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

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

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

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

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

#### *Section 3865: Hedges*

This Section requires that:

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

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

#### *Section 1506: Accounting Changes*

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

### B) Future Accounting Changes

In December 2006 and January 2007, the CICA issued the following four accounting standards: Section 1535, Capital Disclosures, Section 3862, Financial Instruments - Disclosures and Section 3863, Financial Instruments - Presentation, Section 3031, Inventories. These new standards will be effective for the Corporation on January 1, 2008.

**SAVARIA CORPORATION**

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2007

**2. CHANGES IN ACCOUNTING POLICIES (Cont'd)**

*Section 1535: Capital Disclosures*

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

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

These new standards replace Section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements.

*Section 3031: Inventories*

This Section prescribes the accounting treatment for inventories by providing guidance on the determination of costs and its subsequent recognition as an expense.

While the Corporation is currently assessing the impact of these new recommendations on its financial statements, it does not expect the recommendations to have a significant impact on its financial position, earnings or cash flows.

**3. NET CHANGES IN NON-CASH WORKING CAPITAL ITEMS**

|                         | Three months ended June 30 |                       | Six months ended June 30 |                       |
|-------------------------|----------------------------|-----------------------|--------------------------|-----------------------|
|                         | 2007                       | 2006                  | 2007                     | 2006                  |
| Accounts receivable     | \$ (384,884)               | \$ (911,330)          | \$ 955,437               | \$ (254,317)          |
| Inventories             | 272,705                    | 361,862               | 20,150                   | 488,870               |
| Prepaid expenses        | (17,186)                   | 273,174               | (473,119)                | (93,256)              |
| Income taxes receivable | 217,044                    | (73,186)              | 164,676                  | (34,520)              |
| Accounts payable        | 327,782                    | (1,407,874)           | (48,195)                 | (1,900,459)           |
|                         | <b>\$ 415,461</b>          | <b>\$ (1,757,354)</b> | <b>\$ 618,949</b>        | <b>\$ (1,793,682)</b> |

In the first quarter, the Corporation issued 475,000 common shares following the exercise of stock options; in consideration, a long-term loan in the amount of \$250,000 has been issued, generating a net cash flow of \$225,000.

**4. OTHER REVENUES AND CHARGES**

|                                   | Three months ended June 30 |                     | Six months ended June 30 |                     |
|-----------------------------------|----------------------------|---------------------|--------------------------|---------------------|
|                                   | 2007                       | 2006                | 2007                     | 2006                |
| Interest and dividend income      | \$ 69,954                  | \$ 85,003           | \$ 150,976               | \$ 168,093          |
| Loss on foreign currency exchange | (658,361)                  | (123,800)           | (709,112)                | (93,153)            |
| Interest on long-term debt        | (80,257)                   | (98,068)            | (149,841)                | (199,091)           |
| Interest expense and bank charges | (18,744)                   | (27,987)            | (66,643)                 | (44,023)            |
| Loss on disposal of fixed assets  | -                          | 2,406               | (4,297)                  | (1,100)             |
| Other revenues                    | 7,054                      | 6,169               | 17,179                   | 56,169              |
|                                   | <b>\$ (680,354)</b>        | <b>\$ (156,277)</b> | <b>\$ (761,738)</b>      | <b>\$ (113,105)</b> |

**SAVARIA CORPORATION**

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2007

**5. 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

**Issued:**

|                                 | Common shares |               |
|---------------------------------|---------------|---------------|
|                                 | Number        | Amount        |
| Balance as at December 31, 2006 | 28,598,414    | \$ 16,244,789 |
| Exercise of stock options       | 475,000       | 475,000       |
| Cancelled following issuer bid  | (610,700)     | (349,776)     |
| Balance as at June 30, 2007     | 28,462,714    | \$ 16,370,013 |

**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 June 30 |            | Six months ended June 30 |            |
|---|----------------------------|------------|--------------------------|------------|
|   | 2007                       | 2006       | 2007                     | 2006       |
| Weighted average number of shares outstanding for use in determining basic earnings per share   | 28,678,614                 | 29,695,718 | 28,690,739               | 29,717,360 |
| Effect of potential dilutive securities due to stock options                                    | 23,100                     | 204,513    | 47,315                   | 214,015    |
| Weighted average number of shares outstanding for use in determining diluted earnings per share | 28,701,714                 | 29,900,231 | 28,738,054               | 29,931,375 |

**6. ACCUMULATED OTHER COMPREHENSIVE INCOME**

|   | Six months ended<br>June 30 |
|---|-----------------------------|
|   | 2007                        |
| Unrealized losses on foreign exchange contracts at the date of adoption of chapter 3865,<br>Hedges, net of income taxes in the amount of \$43,095 | \$ (86,828)                 |
| Changes in other comprehensive income in the current period   | 356,981                     |
| Unrealized gains on foreign exchange contracts designated as cash flow hedges, net of<br>income taxes of \$134,086                                | \$ 270,153                  |

**SAVARIA CORPORATION**

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2007

**7. SEGMENTED INFORMATION**

The Corporation's business structure is divided into two sectors: the first consists of manufacturing and distributing accessibility equipment for people with mobility challenges (elevators), and the second consists of converting and adapting vehicles for the physically handicapped (vehicles).

The business sectors are detailed as follows:

|                           | Three months ended June 30 |                 |                      | Six months ended June 30 |                 |                      |
|---------------------------|----------------------------|-----------------|----------------------|--------------------------|-----------------|----------------------|
|                           | <b>Elevators</b>           | <b>Vehicles</b> | <b>Total</b>         | <b>Elevators</b>         | <b>Vehicles</b> | <b>Total</b>         |
| Sales                     | \$ 12,497,020              | \$ 2,659,905    | \$ <b>15,156,925</b> | \$ 24,492,651            | \$ 5,109,843    | \$ <b>29,602,494</b> |
| Operating Earnings        | 563,031                    | 99,086          | <b>662,117</b>       | 1,349,461                | 61,983          | <b>1,411,444</b>     |
| Net earnings (losses)     | (147,487)                  | 57,351          | <b>(90,136)</b>      | 526,645                  | 22,019          | <b>548,664</b>       |
| Assets                    | 34,351,819                 | 3,000,370       | <b>37,352,189</b>    | 34,351,819               | 3,000,370       | <b>37,352,189</b>    |
| Amortization              | 245,532                    | 19,933          | <b>265,465</b>       | 463,021                  | 38,260          | <b>501,281</b>       |
| Additions to fixed assets | 66,292                     | 7,323           | <b>73,615</b>        | 90,989                   | 7,323           | <b>98,312</b>        |

**8. COMPARATIVE FIGURES**

Certain figures have been reclassified to conform to the presentation adopted in 2007.