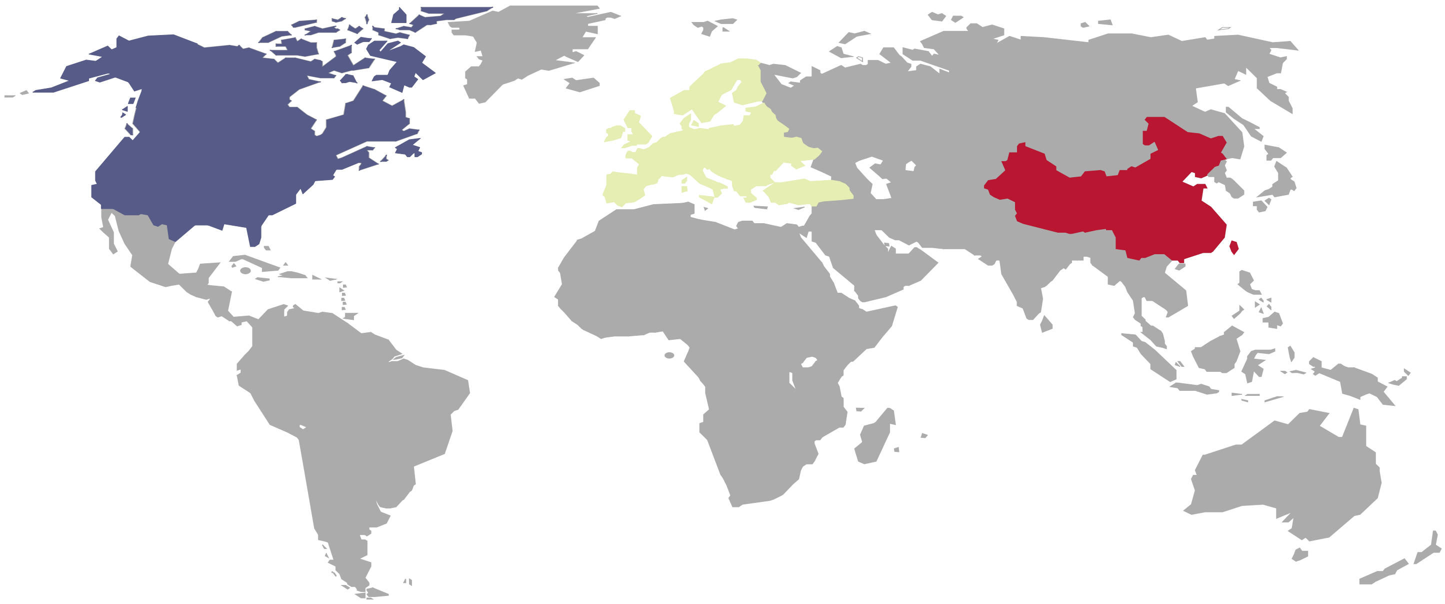

SAVARIA
ANNUAL
REPORT
07

Our International Reach Is Expanding



Savaria Corporation is Canada's leader and the second largest accessibility company in North America. The Corporation designs, manufactures and distributes products meeting the needs of people with mobility challenges, primarily stairlifts, vertical and inclined platform lifts, as well as elevators for residential and commercial use. Through Van-Action (2005) Inc., Savaria also converts and adapts vehicles for the disabled. Its sales rely on a network of some 600 retailers in North America. Savaria records approximately 60% of its sales outside Canada and employs some 300 people. Its shares are listed on the TSX under the ticker symbol SIS.

WWW.SAVARIACONCORD.COM

HIGHLIGHTS

99

200 retailers

$7.8 million in sales

98

Launch of Multilift vertical platform lift

Plant floor space:
from 25,000 to 31,000 sq.ft.

97

Launch of B.07 stairlift

Plant floor space:
from 12,500 to 25,000 sq.ft.

96

100 retailers

$3 million in sales

95

Launch of ES-125 inclined platform lift

94

Launch of Telecab elevator

91

Arrival of Robert Berthiaume

Development of U.S. distribution network

89

Acquisition by Marcel Bourassa

Five employees

$200,000 in sales

79

Founding of the Corporation

08

Marketing agreement with Vimec

Sale of Laval building

07

Transfer of Laval manufacturing operations to plants in Ontario and China

Launch of Eclipse residential elevator

$57.5 million in sales

06

Integration of Concord and Van-Action

Discontinuance of direct sales outside Montreal

New dividend policy

$59.2 million in sales

05

Acquisition of Concord Elevator Inc.

Purchase of Van-Action Inc.'s assets

$5.6 million private placement

600 retailers

$39.3 million in sales

04

Launch of Ultimo elevator for residential use

300 retailers

$22.1 million in sales

03

Transfer to Toronto Stock Exchange

$5 million private placement

New headquarters in Laval, Quebec

Plant floor space:
from 41,000 to 70,000 sq.ft.

$17.6 million in sales

02

Launch of Step-Saver stairlift

Listing on the TSX Venture Exchange

Start-up of procurement by Chinese suppliers

01

Launch of Stairfriend curved staircase lift

Plant floor space:
from 31,000 to 41,000 sq.ft.

MESSAGE TO SHAREHOLDERS

I am pleased once again to report on our most recent achievements, the trends in our industry and the initiatives we are taking to optimize Savaria's prosperity.

Fiscal 2007 was marked by the sharp rise in the value of the Canadian dollar and the collapse of the real estate market in the United States – two factors that had a major impact on our operations and our business strategy.

We have taken a number of initiatives in order to optimize the Corporation's profitability, such as consolidating our manufacturing operations, launching new products and entering into partnerships.

A NEW CONTEXT

The context in which Savaria operates has changed considerably within just one year. First, the rapid increase in the Canadian dollar toward parity with the U.S. dollar had an adverse impact on our operating profitability, as 54% of our business volume comes from the United States.

Furthermore, the U.S. residential real estate bubble burst in 2007. Combined with the high-risk mortgage loans crisis, the collapse of the real estate market adversely affected home construction, consumer confidence and the demand for residential elevators. Recent data show that building permits fell 30%, a trend that will limit the growth in our residential elevator sales in the near term.

Conversely, the demand for accessibility products for elderly or disabled individuals is increasing at a steady pace. The sale of stairlifts and platform lifts is relatively unaffected by blips in the economy. Close to 5.2 million Americans over 65 years of age required accessibility equipment in 2002. According to the U.S. Census Bureau, this number will reach 6.2 million by 2012. The aging of the population is a global and irreversible trend that will drive the sale of accessibility products for many years to come.

MAJOR INITIATIVES

The magnitude and rapidity of these macroeconomic changes were almost unprecedented. However, we lost no time reacting, building on our greatest strengths – our knowledge of the industry and industrial design, manufacturing and supply logistics, as well as our extensive distribution network – and taking major initiatives to restore the Corporation's profitability. We focused primarily on:

- Improving our manufacturing productivity – The most important and heart-wrenching decision was our December 2007 resolve to transfer our Laval manufacturing operations to our Brampton, Ontario plant and the facility of a Huizhou related party in China.

- Bringing new products to market – Savaria is notably renowned for the quality of its products. Our new residential elevator, launched in September 2007 under the Eclipse trademark, is no exception. Already highly appreciated by our distributors and users, this product designed mainly for multiple-unit residential projects offers many advantages, including easy installation.

- Further expanding worldwide through partnerships – It is in the Corporation's interests to team up with partners in order to lower its manufacturing costs, broaden its product line and expand its business geographically. In addition to our operations in China and the search for other Asian manufacturers, we entered an agreement with Vimec S.R.L. in February 2008. This Italian company will see to marketing our products in Europe, and we will do the same for its products in North America.

2008 – A TURNING POINT

Our manufacturing activities in China undertaken in 2002 and the acquisition of Concord Elevator Inc. closed in 2005 have reinforced our positioning and offer us attractive opportunities today. We benefit from a solid balance sheet and assuredly have the resources needed to adapt our operations to the trends in our industry.

In 2008, we will continue to make the most of operational and administrative synergies. The transfer of the Laval manufacturing activities will lead to operational savings of about $1.5 million annually. These benefits will fully materialize subsequent to the sale of our building in the second quarter of 2008, which will free up funds of more than $1.1 million. Furthermore, our volume of purchases from China should once again double in the current fiscal year.

As for our agreement with Vimec, the accreditation of our respective products is in progress and we will start to reap the benefits as of the third quarter of 2008.

All in all, fiscal 2008 will mark a turning point, paving the way for a sustained increase in our revenues and profit margin.

EXPRESSION OF THANKS

We are aware that the challenging context prevailing today is giving rise to many changes and uncertainties. It was with sadness that we were obliged to dismiss a number of employees in 2007. I take this opportunity to sincerely thank them for their contribution over the years.

I also welcome the employees who recently joined our team. Together, 300 men and women are persevering so we can ensure Savaria's prosperity.

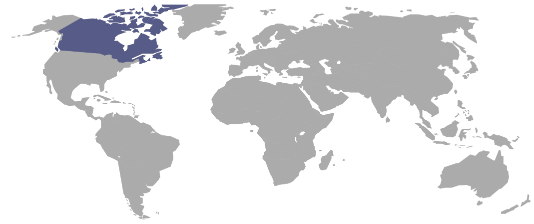
I would also like to highlight the invaluable contribution of the Corporation's directors who were involved in major decisions. Finally, I thank Savaria's shareholders, whose patience was definitely tested in 2007. You may rest assured that we are doing our utmost to ensure our efforts bring about an increase in the value of your investment.

Thank you for your attention and your interest in Savaria.

Signed: Marcel Bourassa

Marcel Bourassa

Chairman of the Board, President and Chief Executive Officer



CANADIAN PLANT

Savaria's main plant is located in Brampton, Ontario. North American manufacturing has been consolidated on-site since the closure of the Laval facility in December 2007. Covering an area of 210,000 square feet and equipped with state-of-the-art machinery, it has a production capacity of $100 million annually. All of the Corporation's elevators are manufactured there, as are its vertical and inclined platform lifts. Technical support and after-sales services, formerly provided from Laval, are also offered from Brampton.

The integration of the former Laval operations is well under way. Within a few months, some 40 people have joined the Brampton team and major redevelopment work has been completed. Productivity at this plant, which now has about 200 employees, is already efficient. As of 2008, the consolidation of North American operations will lead to significant savings, as well as the standardization of the quality of the Corporation's products and after-sales service.

Elevators, platform lifts and stairlifts consist of a multitude of components, many of which are manufactured by partner companies and a related party's facility in China. Employees at the Brampton plant are therefore busy designing and assembling various products that are shipped to more than 600 accessibility equipment distributors and installers in North America.

PLANT CHINESE

The Chinese employees at Savaria Huizhou manufacture and assemble stairlifts, automatic door openers and various standard components.

Active in China since 2002, Savaria Huizhou, a related party of the Corporation, is stepping up its manufacturing operations in this country because of the appreciation in the Canadian dollar and the success achieved thus far. By the end of fiscal 2007, this plant's floor space had been expanded to 35,000 square feet, and its staff had increased from 25 to 50 employees.

The quality of the products manufactured in China is obviously a concern at all times. In this regard, a team audits among others the quality of the raw materials and the dimensions and efficient operation of the manufactured products. What's more, the facility is approved by the Electrotechnical Testing Laboratory and the Canadian Standards Association for the assembly of the electrical components, and by the Canadian Welding Bureau for everything to do with the welding. Finally, the Corporation regularly sends Canadian engineers on-site to oversee the transfer of certain processes and perfect the employees' training. Nothing is left to chance.

Given this unmatched quality/price value, Savaria has doubled its shipments from China year after year. Driven by the plant's expansion, the hiring of personnel and the increased product manufacturing subsequent to the closure of the Laval facility, shipments should reach approximately $5 million in 2008.

THE ECLIPSE ELEVATOR

Savaria's R&D team, the Brampton plant's manufacturing capacity and the synergies arising from manufacturing in Asia ensure distributors and consumers of high-quality products at a very competitive price.

The Eclipse is no exception, since it is now the finest machine-room-less residential elevator on the market. Launched In October 2007, this elevator provides a smooth and stable ride, and uses minimal space.

Requiring minimal overhead drive space, it easily fits into new or existing homes. Moreover, home owners can choose from a wide range of options (finish, gate and accessories) to suit to their needs and personalized decor.

The opinions about this new product are unanimous:

We just finished installing our first Eclipse elevator and I was really impressed with its performance and quality. Its ride is outstanding and the standard features inside the cab are heads above the competition. Great job on developing a top-notch residential elevator.

TIM LORD
Nationwide Lifts

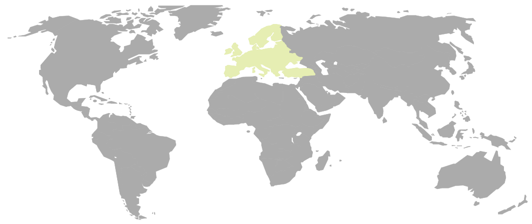
The Eclipse is the best new product in our industry. Since our very first installation took about the same time as for an Infinity elevator, I am sure the next one will be a day shorter. This product, perfectly suited for multi-unit projects, will be a real winner for us.

WILLIE WILLIAMS
Concord London

Savaria delivered the best residential elevator in the market. When you combine its ease of installation, its price and its interior design, the Eclipse is a home run for everybody, our builders, home buyers and Gable Elevator. We can now truly offer a great elevator at a great price.

RICHARD M. GABLE
Gable Elevators

MAJOR DISTRIBUTION AGREEMENT VIMEC



Vimec's products are built in accordance with international quality and reliability standards. All its products comply with European guidelines and therefore bear the CE marking. Vimec was also the first Italian company in its sector to obtain UNI EN IS0 9001 Certification.

Marcel Bourassa; Ettore Zoboli, Managing Director of Vimec

Savaria has entered into a major agreement with *Vimec S.R.L.*, a European leader in the accessibility industry. (www.vimec.biz). This agreement is two-tiered: Vimec will sell the Corporation's products through its 200 European distributors, located primarily in Italy, France, England and Spain. In turn, Savaria will distribute its partner's products in North America.

Founded in 1980, Vimec manufactures and distributes elevators, platformlifts and stairlifts. Its products, which are complementary to those of the Corporation, are offered in all industrialized regions worldwide, except in North America. Conversely, less than 10% of Savaria's sales come from outside North America. This clearly win-win agreement will enable the Corporation to greatly increase its presence in Europe. Consequently, management expects European sales to double once the necessary certifications are obtained.

MERITS

Savaria has entered into an agreement with Merits Health Products Co. pursuant to which the Corporation obtained the exclusive distribution of Merits' products in Canada and the right to sell them in the United States. Based in Taiwan, Merits manufactures more than 100,000 wheelchairs and electric scooters annually. This industry leader designs premium-quality products certified by various regulatory authorities such as the FDA (U.S.), CE (Europe), JIS (Japan), TUV and ISO.

Since they are targeted to people with mobility challenges, Merits' products are a perfect complement to the adapted vehicles and elevators offered by Savaria. First, the agreement expands the Corporation's product line, fostering the satisfaction and loyalty of its customers. Secondly, it can offer Merits products through its numerous dealers, retailers and installer-partners.

Building on its extensive Canadian distribution network, Savaria, through its subsidiary Van-Action, intends to rapidly position itself in the wheelchair and electric scooter segments in the country. This agreement, which fits perfectly with its development strategy, will drive its sales growth as of the second half of the current fiscal year.

CORPORATE INFORMATION

DIRECTORS

MARCEL BOURASSA, B.A.A.
Chairman of the Board, President,
Chief Executive Officer and Secretary
Savaria Corporation

JEAN-MARIE BOURASSA*, C.A.
Chief Financial Officer
Savaria Corporation

ROBERT BERTHIAUME, ENG.
Vice-President, Research and Development
Savaria Concord Lifts Inc.

NORMAND BALTHAZARD*
Director and Chairman of the Audit Committee

JEAN-LOUIS CHAPDELAINE
Director

PETER DRUTZ*
Director

* Members of the Audit Committee

The Annual General Meeting of Shareholders will be held at 11:00 a.m. on Thursday, May 15, 2008, in the Blue Room of the Montreal Ritz-Carlton Hotel, located at 1228 Sherbrooke Street W., Montreal, Quebec.

OFFICERS

SAVARIA CORPORATION
Marcel Bourassa, B.A.A.
Chairman of the Board,
President and Chief Executive Officer

Hélène Bernier, C.A.
Vice-President, Finance

SAVARIA CONCORD LIFTS INC.
Bill Richardson
Executive Vice-President

VAN-ACTION (2005) INC.
Michel Dubé
President

HEAD OFFICE

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Telephone: (514) 342-5000
Toll-Free: 1-800-668-8705

BANKER

National Bank of Canada

AUDITORS

PricewaterhouseCoopers LLP

LEGAL COUNSEL

Lévesque Gravel & Associates
McLeod & Co.
Blake Cassels and Graydon LLP

TRANSFER AGENT AND REGISTRAR

Computershare Trust
Company of Canada

STOCK INFORMATION

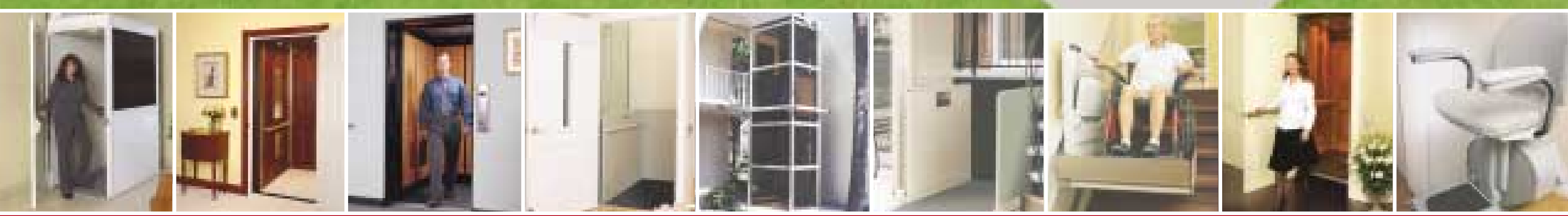
The shares of Savaria Corporation are listed on the TSX under the ticker symbol SIS. Shareholders wishing to obtain a copy of the Annual Information Form, or any other corporate documents, are invited to write, fax or email their request to the Corporation's head office.

CUSTOMER INQUIRIES

To find the Savaria retailer nearest your home, please consult the Corporation's website at www.savariaconcord.com.

SAVARIA

Your Accessibilty Partner



Telecab | Infinity | Orion | V1504-STD | V1504-ALPE | Multilift | ES-125 P | Eclipse | Step-Saver

SAVARIA CORPORATION

Management's Report

For the Three and Twelve-Month Periods Ended December 31, 2007

Contents

1. Basis of Presentation

This management's report is designed to assist the reader in better understanding the business of Savaria Corporation and its key financial results. It notably discusses the Corporation's financial position and operating results for the three-month and the twelve-month periods ended December 31, 2007 in comparison with those for the corresponding periods of fiscal 2006. It also provides a comparison of the balance sheets as at December 31, 2007 and 2006. Unless otherwise indicated, the terms "the Corporation" and "Savaria" refer to Savaria Corporation and its subsidiaries.

Prepared in accordance with *National Instrument 51-102 – Continuous Disclosure Obligations*, this report should be read in conjunction with the audited consolidated financial statements and accompanying notes and the management's report contained in the Corporation's 2007 Annual Report. Unless otherwise indicated, all amounts are expressed in Canadian dollars.

The financial statements and management's report have been reviewed by Savaria Corporation's Audit Committee and approved by its Board of Directors.

This management's report was prepared as of March 13, 2008. Additional information, including the Annual Information Form, is available on SEDAR's website at www.sedar.com.

2. Forward-Looking Statements and Disclaimer

Certain statements in this management's report may be forward-looking. Forward-looking statements involve known and unknown risks, uncertainties or other factors that may cause the Corporation's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Savaria disclaims any intention or obligation to update or revise any forward-looking statements in order to account for any new information or any other event. The reader is warned against the risk of giving excessive credibility to these forward-looking statements.

3. Compliance with Canadian Generally Accepted Accounting Principles

The Corporation's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). However, the Corporation uses earnings before interest, income taxes and amortization ("EBITDA") for analysis purposes to measure its financial performance. This measure has no standardized definition in accordance with GAAP and is therefore regarded as a non-GAAP measure. This measure may therefore not be comparable to similar measures reported by other companies. EBITDA allows us to compare our operational performance on an ongoing basis. It is presented in this management's report to provide the reader with supplementary information about the Corporation's cash flows and its ability to manage funds in order to finance its operations, but should not be regarded as an alternative to financial information prepared in accordance with GAAP.

4. Business Overview

Savaria Corporation's operations are divided into three reportable segments: *Elevators, Accessibility* and *Adapted Transportation.* Business in the first and second segments is conducted by the subsidiary Savaria Concord Lifts, which designs, manufactures and distributes products meeting the needs of people with mobility problems, primarily stairlifts, vertical and inclined platform lifts, and elevators for residential and commercial use. The Corporation ranks as Canada's leader and the second largest U.S. player in the accessibility equipment industry. Its expanded product line is offered through a network of some 600 retailers located mainly in North America. Business in the third segment is conducted by the subsidiary Van-Action (2005), which converts and adapts automotive vehicles, primarily lowered-floor mini-vans, also for people with mobility problems. Annualized revenues in the *Elevators* and *Accessibility* segments total approximately $49 M, whereas those in the *Vehicles* segment amount to $9 M, bringing aggregate revenues to approximately $58 M.

Headquartered in Laval, Quebec, Savaria has two facilities: one 210,000-square-foot plant in Brampton, Ontario and one 70,000-square-foot plant in Ville St-Laurent, Quebec. As announced on October 11, 2007, the Corporation closed its Laval manufacturing facilities on December 21, 2007. This plant's production has been transferred to its facility in Brampton, Ontario and that of a related party in China.

The Corporation included a variable interest entity ("VIE") in its scope of consolidation as at December 31, 2007. The entity in question, Savaria (Huizhou) Mechanical Equipment Manufacturing Co. LTD, is held by a related party but the Corporation plans to transfer the outstanding capital stock in the entity to its name during the first half of 2008. Located in Huizhou, China, the entity assembles accessibility equipment components and finished products for the benefit of the Corporation and its subsidiaries. It operates a 35,000-square-foot facility and employs about 35 people.

As of December 31, 2007, Savaria's revenues were recorded in the United States (54%), Canada (40%) and, to a lesser extent, outside North America (6%). The Corporation has some 300 employees and its shares are listed on Toronto Stock Exchange under the ticker symbol SIS.

5. Business Context

Products for the accessibility market are sold to wheelchair users and to elderly people with mobility problems for whom stairs and raised building entrances are major obstacles. The number of people requiring accessibility products will therefore steadily grow as the population continues to age, as shown in the table below.

In millions	2002	2007	2012	2030
Population in the U.S.	288.4	304.8	321.4	364.0
Population aged 65 +	35.6	37.9	42.8	71.0
Population aged 65 + requiring accessibility equipment	5.2	5.5	6.2	10.4

Sources: *U.S. Census Bureau, Freedonia Group*

Every month, another 800,000 individuals turn 65 worldwide. People aged 65 years of age and over accounted for 12% of North America's population in 2002, and this proportion will reach 20% by 2030. The *U.S. Census Bureau* expects the number of disabled people to grow twice as fast as the country's population overall. In fact, it forecasts that an additional 500,000 Americans will suffer from a disability, raising their total to 35.4 million by 2030. The phenomenon is even more acute in Canada, where seniors accounted for 13.1% of the population in 2005, and this proportion will rise to 23.1% by 2030. It is estimated that 14.6% of these people will need accessibility equipment, a percentage that will increase for two reasons: first, average life expectancies are becoming longer and, second, seniors will be wealthier and will therefore have the means to remain in their own homes for as long as possible.

These fundamental changes will definitely have a major impact on the demand for accessibility products in the coming decades. What's more, because of the aging population and high cost of living in institutions for people with mobility problems, various public and private organizations in both the United States and Canada could reimburse the cost of such devices, as is common today in some European countries.

Along with demographic factors, the demand for accessibility products is also affected by economic conditions and the strength of home and institutional construction.

Competitively, five main companies, all private entities or subsidiaries of large corporations, target the same market as Savaria. Since 85% of the Corporation's products are custom-made, large-scale manufacturing and imports are not a serious threat. Although competing products are of a high quality and sold at competitive prices, Savaria stands apart for its operational flexibility, the reliability and safety of its products, and the quality of its after-sales service.

The retail market, for its part, is highly fragmented. Over 1,000 outlets sell accessibility products in North America.

6. Vision and Strategy

Our Vision

Be a North American leader in the design, manufacturing and distribution of products that promote the mobility of individuals.

Our Strategy

Savaria's strategy in upcoming months will build upon:

- finalizing the integration of the Laval plant operations at our Brampton and Chinese facilities to optimize our profitability;
- completing the launch of the "Eclipse", a new residential elevator that does not require a mechanical room, along with a new line of automatic door openers that fit perfectly with our elevators and platform lifts;
- taking further advantage of the potential savings derived from having components manufactured in China:

In this regard, the floor space of the Huizhou manufacturing plant was expanded from 8,000 square feet to 35,000 square feet in the third quarter; and

- continuing to seek acquisitions and potential partnerships that will contribute to significantly increase the Corporation's sales.

By implementing these strategies, we hope to become one of the most attractive investments in our business sector in the coming years.

7. Fourth-Quarter and Fiscal 2007 Highlights

Increase in Sales of 2.3% for the Fourth Quarter and 2.7% for the Fiscal Year excluding the discontinuance of direct sales and the increase in the value of the Canadian dollar

Sales were down 5.4% in the fourth quarter of 2007 from the fourth quarter a year earlier. Excluding the effect of the discontinuance of direct sales outside the Montreal area in 2006 (1.3%) and the impact of fluctuations in the U.S. dollar exchange rate (6.4%), sales were up 2.3%.

Sales for the fiscal year ended December 31, 2007 were down 4.6% from the previous year. Excluding the effect of the discontinuance of direct sales outside the Montreal area in 2006 (5.1%) and the impact of fluctuations in the U.S. dollar exchange rate (2.2%), sales were up 2.7%.

Decrease in Operating Earnings of 41% for the Fourth Quarter and 13% for the Fiscal Year excluding the increase in the value of the Canadian dollar

Operating earnings amounted to $72,000 for the fourth quarter of 2007 and to $2 M for the fiscal year, compared with $919,000 and $3.1 M, respectively, for the corresponding periods of 2006. This decrease includes the negative impact of the exchange rate of $471,000 for the quarter and $651,000 for the year.

Exchange Gain of $169,000 for the Fourth Quarter and Exchange Loss of $927,000 for the Fiscal Year

An exchange gain of $169,000 was recorded in the fourth quarter of 2007, due primarily to foreign exchange forward contracts recognized during the quarter. An exchange loss of $927,000 was recorded for the fiscal year, due mainly to the Canadian dollar/U.S. dollar closing rate of 0.9913, compared with a rate of 1.1654 as at December 31, 2006.

Recognition of Unusual Items Totalling $850,000 in the Fourth Quarter

Several unusual items having an unfavourable impact on earnings before income taxes were recognized in the fourth quarter of 2007 under *Other Revenues and Expenses* and *Write-off of Assets*. These items include a write-down of asset-backed commercial paper ("ABCP") ($254,000), the inclusion in earnings of the loss of a variable interest entity ($164,000), stock-based compensation following the issue of a loan to an employee ($108,000), as well as the recognition of restructuring costs ($224,000) and the write-down of assets subsequent to the closure of the Laval plant ($100,000).

8. Summary of the Last Three Years

Selected financial information for the last three years is presented in the table below.

(in thousands, except per-share amounts and percentages)	2007	2006	2005
U.S. dollar exchange rate, end of year	**0.9913**	1.1654	1.1630
Sales	**$57,520**	$60,298	$39,606
Gross profit as a % of sales	***23.5 %***	*26.6 %*	*29.3 %*
Selling and administrative expenses as a % of sales	**18.1%**	19.0%	18.3%
Operating earnings	**$2,049**	$3,097	$3,658
As a % of sales	***3.6 %***	*5.1 %*	*9.2%*
Earnings before interest, income taxes and amortization (EBITDA)	**$1,351**	$4,857	$4,794
EBITDA per share - diluted	**$0.047**	$0.164	$0.198
Exchange gain (loss)	**$(927)**	$351	$285
Net earnings (loss)	**$(324)**	$1,904	$2,630
Net earnings (loss) per share - basic	**$(0.011)**	$0.065	$0.124
Net earnings per share - diluted	**$(0.011)**	$0.064	$0.108
Dividends declared per share	**$0.082**	$0.022	$0.025
Weighted average number of common shares outstanding – diluted	**28,371**	29,669	24,277
Total assets	**$38,705**	$40,261	$43,862
Total liabilities	**$16,082**	$13,924	$17,096
Shareholders' equity	**$22,623**	$26,337	$26,766

In 2005, Savaria made two acquisitions, specifically the assets of Van-Action Inc. in June, and 100% of the outstanding capital stock of Concord Elevator Holdings Inc. in September. This growth strategy paid off as the Corporation's revenues rose from $40 million in 2005 to $57.5 million in 2007.

Given their nature, the operations acquired in 2005 generate lower profit margins. The discontinuance of direct sales outside the Montreal area and the decline in the U.S. dollar in relation to the Canadian dollar also had an unfavourable impact on gross profit margins. The overall margin therefore fell from 35.1% in 2004 to 23.5% in 2007.

In addition to the impact of the increase in the value of the Canadian dollar, several unusual items having an unfavourable impact on net earnings were recognized in 2007, as mentioned under *Highlights*.

The new dividend policy adopted in 2006 allowed the increase in the dividend declared per share in 2007.

The conversion of 7,000,000 preferred shares into common shares, the issue of 4,249,984 shares in connection with business acquisitions and 2,786,000 shares pursuant to a private placement in 2005, and the subsequent repurchase for cancellation of 621,300 shares in 2006 and 911,000 shares in 2007 have contributed to the major part of the change in the weighted average number of shares outstanding since 2005.

9. Summary of Quarterly Results

Selected financial information for the last eight quarters is presented in the table below. Management is of the opinion that the information related to these quarters has been prepared in accordance with the same principles as the audited financial statements for the fiscal year ended December 31, 2007.

(in thousands, except per-share amounts and percentages)	**2007**				2006			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
U.S. dollar exchange rate, end of quarter	**0.9913**	0.9948	1.0654	1.1546	1.1654	1.1177	1.1162	1.1680
Sales	$14,006	$14,527	$14,805	$14,182	$14,801	$14,468	$15,652	$15,377
Gross profit as a % of sales	*20.5%*	*24.9%*	*22.9%*	*25.9%*	*27.5%*	*25.1%*	*27.7%*	*25.9%*
Selling and administrative expenses as a % of sales	17.9%	19.1%	16.6%	18.9%	18.1%	18.6%	20.1%	19.2%
Operating earnings	$72	$565	$662	$749	$919	$698	$727	$753
As a % of sales	*0.5%*	*3.9%*	*4.5%*	*5.3%*	*6.2%*	*4.8%*	*4.7%*	*4.9%*
Earnings before interest, income taxes and amortization (EBITDA)	$(318)	$452	$276	$940	$1,705	$1,150	$895	$1,107
EBITDA per share - diluted	$(0.011)	$0.016	0.010	$0.033	$0.059	$0.039	$0.030	$0.037
Exchange gain (loss)	$169	$(387)	$(658)	$(51)	$398	$46	$(124)	$31
Net earnings (loss)	$(886)	$14	$(90)	$639	$692	$581	$87	$544
Net earnings (loss) per share - basic	$(0.032)	-	$(0.003)	$0.022	$0.024	$0.020	$0.003	$0.018
Net earnings per share - diluted	$(0.032)	-	$(0.003)	$0.022	$0.024	$0.020	$0.003	$0.018
Dividends declared per share	-	-	-	$0.082	-	-	$0.022	-
Weighted average number of common shares outstanding – diluted	28,076	28,438	28,702	28,773	29,091,	29,719	29,900	29,962

As shown in the above table, the key factor underlying the decrease in sales from quarter to quarter is the increase in the value of the Canadian dollar in relation to the U.S. dollar. As 55% of inflows are recorded in U.S. dollars and outlays in U.S. dollars represent only 37% of these inflows, the 18% increase in the Canadian dollar between the first quarter of 2006 and the fourth quarter of 2007 had a direct adverse impact on operating earnings and EBITDA.

The following section provides a detailed analysis of the operating results for the fourth quarter of fiscal 2007 in comparison with the same quarter of 2006 and of year-to-date operating results for fiscal 2007 in comparison with the previous year. The detailed analysis of prior quarters is provided in the interim management's reports for fiscal 2007 and 2006, available on SEDAR's website at www.sedar.com.

10. Operating Results

Certain data on results for the fourth quarter (three months) and the fiscal year ended December 31, 2007 (twelve months) are presented in the following tables.

Currency Fluctuations

As stated above, given the greater proportion of U.S. dollar sales than purchases, the Corporation's results are exposed to fluctuations in the U.S. dollar in relation to the Canadian dollar.

The following table summarizes the impact of U.S. dollar fluctuations on the principal earnings statement items for the three and twelve-month periods ended December 31, 2007 in comparison with the exchange rates in effect during the same periods a year earlier. It should be noted that results have been normalized to exclude gains or losses arising from the use of foreign exchange contracts ("FX contracts").

Unfavourable impact of fluctuations in the U.S. dollar excluding FX contracts (in thousands of dollars)	3 Months	12 Months
Sales	$1,186	$1,749
Gross profit	$709	$1,091
EBITDA	$641	$2,243

To reduce the risks related to currency fluctuations, the Corporation uses derivative financial instruments such as foreign exchange forward contracts, which are recorded at fair value in the balance sheet. In this regard, a gain of $205,000 was recognized in sales and $101,000 in other revenues and expenses, for a total gain of $306,000 for the quarter ended December 31, 2007. For the fiscal year ended on the same date, a gain of $411,000 was recognized in sales and $225,000 in other revenues and expenses, for a total gain of $636,000. Considering that losses on foreign exchange forward contracts were recorded as a reduction of sales in 2006, in the amount of $33,000 for the fourth quarter and $29,000 for the fiscal year, the favourable impact of foreign exchange forward contracts in 2007 amounted to $238,000 for the fourth quarter and $440,000 for the fiscal year.

The following table summarizes the impact of U.S. dollar fluctuations and of foreign exchange forward contracts on the principal earnings statement items for the three and twelve-month periods ended December 31, 2007 in comparison with the exchange rates in effect during the same periods a year earlier.

Unfavourable impact of fluctuations in the U.S. dollar including FX contracts (in thousands of dollars)	3 Months	12 Months
Sales	$948	$1,309
Gross profit	$471	$651
EBITDA	$302	$1,578

Gross Profit

(in thousands of dollars, except percentages)	3 Months			12 Months		
	2007	2006	% Change	**2007**	2006	% Change
Average effective exchange rate [(1)]	**1.0072**	1.1281	(0.1209)	**1.0909**	1.1319	(0.0410)
Sales	**$14,006**	$14,801	-5.4%	**$57,520**	$60,298	-4.6%
Cost of goods sold	**$11,138**	$10,729	3.8%	**$43,979**	$44,267	-0.7%
Gross profit	**$2,868**	$4,072	-29.6%	**$13,541**	$16,031	-15.5%
As a % of sales	***20.5%***	*27.5%*	*n/a*	***23.5%***	*26.6%*	*n/a*

[(1)] Calculated considering the foreign exchange contracts used during the period

In the fourth quarter of 2007, sales were down 5.4% from the fourth quarter of the previous year, and those for the full fiscal year were down 4.6% from a year earlier. The change is due primarily to the discontinuance of direct sales outside the Montreal area in 2006 and the increase in the Canadian dollar. In fact, the discontinuance of direct sales represented a reduction of $187,000 (1.3% of sales) for the quarter and $3.1 M (5.1% of sales) for fiscal 2007, whereas the effect of exchange rate fluctuations on sales, including gains or losses arising from the use of foreign exchange contracts, was a reduction of $948,000 (6.4% of sales) for the quarter and $1.3 M (2.2% of sales) for fiscal 2007. Taking into account the foreign exchange forward contracts, U.S. dollar sales were recognized at an average translation rate of 1.0072 for the fourth quarter and 1.0909 for fiscal year 2007, while the rate was 1.1281 and 1.1319 for the corresponding periods of 2006.

Eliminating the impact of the discontinued direct sales and unfavourable exchange rate fluctuations, sales increased by 2.3% for the fourth quarter of 2007 and by 2.7% for the fiscal year as a whole.

Sales in the United States totalled $7.4 M in the fourth quarter of 2007, versus $7.8 M in the same quarter of 2006, and $30.9 M for the full twelve months of 2007, versus $31.6 M for same period in 2006. Sales outside North America accounted for 6.5% of sales for the twelve-month period ended December 31, 2007, compared with 7.2% for fiscal 2006. Consequently, the proportion of sales from outside Canada rose to 60.2% from 59.5% the previous year.

Gross profit decreased to $2.9 M in the fourth quarter of 2007, down from $4 M in the same period of 2006, representing a 7% decline in the gross margin going from 27.5% to 20.5%. This reduction is explained in part by the increase in the value of the Canadian dollar, which had a negative impact of 1.9% on the gross margin. Other elements explaining the variance are the write-off of inventory of two discontinued product lines, the loss of sub-let income from the Brampton facility, the addition of indirect labour related to the transfer of operations from Laval to Brampton and the cost of lower productivity related to the closure of the Laval plant.

For the twelve-month period, gross profit fell from $16.0 M to $13.5 M in 2007, representing a 3.1% decline in the gross margin going from 26.6% to 23.5%. The elements that explain the decrease for the fourth quarter also explain the decrease for the year.

Operating Earnings

(in thousands of dollars, except percentages)	3 Months			12 Months		
	2007	2006	% Change	**2007**	2006	% Change
Selling and administrative expenses	**$2,503**	$2,683	-6.7%	**$10,418**	$11,462	-9.1%
Selling and administrative expenses as a % of sales	**17.9%**	18.1%	n/a	**18.1%**	19.0%	n/a
Operating earnings	**$72**	$919	-92.2%	**$2,049**	$3,097	-33.8%
As a % of sales	***0.5%***	*6.2%*	*n/a*	***3.6%***	*5.1%*	*n/a*
EBITDA	**$(318)**	$1,705	-118.7%	**$1,351**	$4,857	-72.2%

Selling and administrative expenses were down 6.7% in the fourth quarter of 2007 from the same quarter of 2006; they decreased by 9.1% for the twelve-month period. This reduction is due largely to the closure of the Corporation's direct sales offices in Ontario, Florida and Vermont in 2006. That decision led to savings of $53,000 in the fourth quarter of 2007 and $773,000 for the twelve-month period. Also, tighter management of the costs of the subsidiary Van-Action (2005) yielded savings of $32,000 in the fourth quarter and $216,000 for the twelve-month period.

Operating earnings as a percentage of sales were down considerably for the fourth quarter and, to a lesser extent, for fiscal 2007 as a whole, standing at 3.6% for this twelve-month period versus 5.1% in 2006. The decrease in selling and administrative expenses and the lower amortization of other assets in 2007, combined with the June 2006 write-off of deferred pre-operating costs of $147,000 related to the discontinuance of direct sales in Florida, were insufficient to offset the shortfall resulting from the decline in gross profit.

Net Earnings

(in thousands of dollars, except percentages)	3 Months			12 Months		
	2007	2006	% Change	**2007**	2006	% Change
Other revenues (expenses)	**$(648)**	$290	-323.4%	**$(1,827)**	$351	-620.5%
Earnings (loss) before income taxes	**$(576)**	$1,210	-147.6%	**$222**	$3,448	-93.6%
Income taxes	**$311**	$517	-39.8%	**$546**	$1,544	-64.6%
Net earnings (loss)	**$(886)**	$692	-228.0%	**$(324)**	$1,904	-117.0%
As a % of sales	***-6.3%***	*4.7%*	*n/a*	***-0.6%***	*3.2%*	*n/a*

Changes in other revenues and expenses were unfavourable in 2007 in comparison with 2006 as a result of the $229,000 decrease in exchange gains for the fourth quarter of 2007 compared with the same period of 2006 and the $1.3 M increase in exchange losses for the full four quarters. These exchange losses came primarily from exchange rate fluctuations on monetary items denominated in U.S. dollars. The total exchange gain recorded in other revenues and expenses therefore amounted to $169,000 for the fourth quarter of 2007, compared with a gain of $398,000 for the corresponding period of 2006, whereas an exchange loss of $927,000 was recorded for the full twelve months of 2007, as opposed to a gain of $351,000 for the corresponding period of 2006.

Also, several unusual items were recognized in other revenues and expenses during the fourth quarter of 2007. The closure of the Laval plant resulted in the recognition of a write-down of assets of $100,000 and restructuring costs of $224,000. Such costs include severance pay of $171,000 and $53,000 in expenses related to the transfer of operations to the Corporation's other facilities. An amount of $254,000 was recorded as write-down of the ABCP (see Section 20, *Risks and Uncertainties*). In addition, a $164,000 loss incurred by a variable interest entity was included in earnings. The entity in question is held by a related party but the Corporation plans to transfer the capital stock in the entity to its own name by the end of the first semester of 2008. Finally, stock-based compensation of $108,000 was recorded following the issue of a loan to an employee for the purpose of acquiring capital stock.

Although income taxes were down considerably for the twelve months ended December 31, 2007 from the same period in 2006, the effective tax rate for the fourth quarter of 2007 (-54.0%) and the fiscal year as a whole (245.9%) was very high compared with the same quarter of 2006 (42.7%) and fiscal 2006 (44.8%). Arising from the decrease in the value of future income tax assets, this change can be explained by the reduction in federal income taxes subsequent to the adoption of the 2007 budget and economic statement in the fourth quarter and the tax deductibility of only 50% of certain expenses.

Finally, Savaria incurred a net loss of $886,000 for the fourth quarter and of $324,000 for the twelve-month period in 2007, compared with net earnings of $692,000 for the fourth quarter and of $1.9 M for the full twelve months of 2006. This decline is due mainly to the impact of the decrease in the U.S. dollar/Canadian dollar exchange rate, the recognition of unusual items in other revenues and expenses and the increase in income taxes payable.

11. Financial Position

Balance Sheet Changes

The following table shows the changes in the consolidated balance sheets between December 31, 2007 and December 31, 2006, along with the principal explanations of such changes:

(in thousands of dollars)	December 31,		Change	Explanation of Changes
	2007	2006		
Current assets				
Cash and cash equivalents	**$4,715**	$5,959	-20.9%	Reclassification of ABCP of $3 M as long-term investments, receipt of a short-term loan of $3 M and payment of a dividend of $2.4 M in April 2007
Temporary investments	**-**	$989	-100.0%	See above explanation
Accounts receivable	**$8,924**	$10,181	-12.3%	Reduction in exchange rate used for the translation of accounts receivable denominated in U.S. dollars (-$966 K) and discontinuance of direct sales outside the Montreal area (-$41 K)
No. of days in receivables	**53**	56	-5.4%	Tighter receivables management
Inventories	**$9,682**	$9,674	0.1%	
Inventory turnover ratio	**4.5**	5.1	-11.8%	Increase in purchases from China requiring larger raw materials inventories
Prepaid expenses	**$686**	$659	4.1%	
Foreign exchange forward contracts	**$14**	-	100%	
Income taxes receivable	**$376**	$321	17.1%	Adjustments of R&D credits receivable
Current portion of long-term loans	**$103**	$161	-36.0%	Reduction in exchange rate used for the translation of loans denominated in U.S. dollars ($18 K)

(in thousands of dollars)	December 31, 2007	December 31, 2006	Change	Explanation of Changes
Future income taxes	**$912**	$1,643	-44.5%	Change in breakdown between short term and long term
Current liabilities				
Bank loans	**$940**	$650	44.6%	Use of credit margin by the subsidiary Savaria Concord Lifts ($690 K) against a decrease of the margin by the subsidiary Van-Action ($400 K)
Accounts payable	**$6,821**	$7,189	-5.1%	Reduction in exchange rate used for the translation of accounts payable denominated in U.S. dollars (-$118 K), discontinuance of direct sales outside the Montreal area (-$156 K) and see above explanation
No. of days in payables	**61**	70	-12.9%	Improvement in payment terms and increase in advance payments on purchases from China
Short-term debt	**$3,000**	-	100%	Loan to offset the lack of liquidity resulting from the ABCP
Warranty provision	**$268**	$281	-4.6%	-
Current liabilities related to assets held for sale	**$3,750**	-	100%	Reclassification of long-term debt associated with assets held for sale
Current portion of long-term debt	**$244**	$770	-68.3%	Reclassification of current portion of debt associated with assets held for sale in the above item
Working capital	**$10,389**	$20,697	-49,8 %	Payment of a dividend of $2.4 M in April 2007, reclassification of ABCP of $3 M in long-term investments and reclassification to short-term of a debt related to assets held for sale while the assets are classified as long-term
Current ratio	**1.69**	3.33	-49,2 %	See above explanation

(in thousands of dollars)	December 31, 2007	December 31, 2006	Change	Explanation of Changes
Long-term items				
Land and building held for sale	**$2,847**	-	100%	Reclassification of fixed assets held for sale
Fixed assets	**$1,796**	$5,061	-64.5%	Reclassification of land and a building held for sale ($2,847), write-down of an asset ($100 K), amortization ($523 K) and disposals ($12 K) greater than acquisitions ($216 K)
Deferred development costs	**$683**	$512	33.4%	Amortization ($200 K) lower than capitalization ($371 K$)
Other assets	**$1,223**	$1,358	-9.9%	Amortization (241 K) and write-offs ($10 K) greater than acquisitions ($116 K)
Goodwill	**$506**	$506	-	
Long-term investments	**$2,720**	-	100%	Reclassification of ABCP of US$3 M in long-term investments less a write-down of $254 K
Long-term loans	**$205**	$248	-17.3%	Repayments received and exchange rate fluctuations greater than amounts of new loans
Long-term future income tax assets	**$3,313**	$2,989	10.8%	Change in breakdown between short term and long term relating to losses carried forward
Long-term debt	**$431**	$4,495	-90.4%	Reclassification of liabilities related to assets held for sale and normal repayment of debt
Warranty provision	**$517**	$539	-4.1%	-
Net liability of a VIE	**$111**	-	100%	Associated with a variable interest entity
Shareholders' equity	**$22,623**	$26,337	-14.1%	Payment of a dividend of $2.4 M and share repurchases of $1.5 M

As at December 31, 2007, Savaria benefited from an excellent financial position, with total assets of $38.7 M, versus $40.3 M as at December 31, 2006, and total liabilities of $16.1 M, versus $13.9 M as at December 31, 2006.

Available Sources of Financing

(in thousands of dollars)	December 31,	
	2007	2006
Credit facilities:		
Authorized	**$11,500**	$8,500
Loans	**$3,940**	$650
Unused credit	**$7,560**	$7,850
Cash and cash equivalents and temporary investments	**$4,715**	$6,947
Total	**$12,275**	$14,797

As shown above, the Corporation has unused credit facilities totalling $7.6 M, providing it with the flexibility to meet its potential obligations in the near term. As at December 31, 2007, its total net debt to invested capital was only 13.9%, providing it with significant financial leverage to finance any large-scale project or strategic acquisition. The reduction in total available sources of financing is due to the payment of a dividend of $2.4 M in April 2007. On October 15, 2007, the Corporation entered into a temporary financing arrangement with its bank to ensure the sufficient availability of liquidity to meet its financial obligations while awaiting the settlement of the ABCP investments. The ABCP was pledged as security for this credit facility in the amount of $3 M, fully used as at December 31, 2007.

Since it only used a maximum of $1 M of its line of credit in 2007, the Corporation reduced its $11.5 M credit facility to $9.5 M in February 2008. Management expects to have sufficient available liquidity to meet its obligations and to finance projects that might require short-term funding.

Other Data and Ratios

(in thousands of dollars, except per-share amounts)	December 31,		Change
	2007	2006	
Book value per share	**$0.81**	$0.92	-12.0%
Cash and cash equivalents per share	**$0.17**	$0.21	-19.0%
Price/EBITDA ratio *	**23.8**	12.2	n/a
Market capitalization	**$33,495**	$57,197	-41.4%

* For the last four quarters

The book value per share along with cash and cash equivalents per share were down as at December 31, 2007 from December 31, 2006 as a result of the $2.4 M dividend payment during the second quarter. At the close of the fourth quarter of 2007, the Corporation's shares were trading at 23.8 times the EBITDA per share recorded in the last four quarters, up from 12.2 times at the end of the previous year.

12. Cash Flows

The following table presents certain cash flow data for the fourth quarter (three months) and the fiscal year (twelve months) ended December 31, 2007.

(in thousands of dollars)	3 Months		12 Months	
	2007	2006	**2007**	2006
Cash flows from operating activities	**$438**	$864	**$2,267**	$1,658
Cash flows from (used in) investing activities	**$(230)**	$(924)	**$(2,496)**	$2,427
Cash flows from (used in) financing activities	**$3,149**	$(1,666)	**$(1,015)**	$(2,669)

The Corporation generated lower cash flows from operating activities in the fourth quarter of 2007 than in the corresponding quarter of 2006 (-$426 K) as result of its lower net earnings partially offset by net changes in non-cash working capital items. Conversely, it achieved higher cash flows for the twelve-month period of 2007 compared with 2006 (+$609 K). The main reasons for these fluctuations are the net changes in non-cash working capital items, which had a positive impact of $4 M, combined with a negative impact of $2.2 M resulting from the lower net earnings. For both the quarter and fiscal 2007 as a whole, the decrease in accounts receivable and accounts payable accounted for most of the favourable changes in non-cash working capital items.

Cash flows used in investing activities were $694,000 lower in the fourth quarter of 2007 than in the same quarter of 2006 as a result of the recognition of temporary investments in 2006, partly counterbalanced by an increase in deferred development costs in 2007. Conversely, investing activities used greater cash flows for the twelve-month period. The $4.9 M increase is explained by the reclassification of ABCP from cash and cash equivalents to long-term investments for a value of $3 M as well as $2 M in lower inflows from temporary investments.

Finally, cash flows from financing activities were up by $4.8 M in the fourth quarter of 2007 over the corresponding quarter of 2006. The main reasons for the increase are the use of a $3 M credit facility, $1.3 M less in long-term debt repayments and $498,000 less in shares repurchased for cancellation in 2007. For the twelve-month period, the Corporation committed $1.7 M less in cash flows. The main reasons for the decrease for the full twelve months are also the use of the credit facility of $3 M and lower long-term debt repayments of

$1.3 M, but equally the increases of $1.7 M in the dividend payment in 2007 and of $394,000 in shares repurchased for cancellation.

13. Significant Accounting Estimates

The preparation of financial statements in accordance with Canadian GAAP requires Savaria's management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes.

Such estimates are based on management's knowledge of current events and other assumptions it believes reasonable under the circumstances. Actual results could differ from those estimates. Management has identified the following critical accounting estimates.

Income Taxes

The Corporation follows the liability method of accounting for income taxes, as recommended by the Canadian Institute of Chartered Accountants ("CICA"). Under this method, income taxes payable are accounted for as estimated income taxes to be paid for the current fiscal year, and future income taxes are accounted for based on the temporary differences between the tax and accounting value of the assets and liabilities. Future income tax assets and liabilities are measured using income tax rates and the enacted or substantively enacted laws which are expected to be in effect for taxable income for the year in which the assets and liabilities will be discharged or recovered. Future income tax assets which arise from tax losses and temporary differences are accounted for when it is more likely than not that the assets will be realized.

Other Assets

Other assets consist of trademarks, client lists and software. Trademarks are not amortized since they have an indefinite lifespan. Client lists are amortized using the straight-line method over their expected useful lives of two to ten years. Computer software is amortized using the declining-balance method at a rate of 30% per annum.

Long-Term Investments in ABCP

The reader is referred to Section 20, *Risks and Uncertainties*.

Stock-Based Compensation

The Corporation records stock-based compensation to its employees and directors at fair value. According to the fair value method, an employee compensation expense is charged to operating expenses based on the fair value of the stock options issued over the vesting period. Upon the exercise of stock options, capital stock is credited in the amount paid plus the corresponding employee compensation expense previously recorded.

14. Changes in Accounting Policies

2007

Effective January 1, 2007, the Corporation adopted the recommendations of the following sections of the 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 this Section resulted in the following classifications:

- Cash and cash equivalents are classified as assets held for trading and are measured at fair value. Gains and losses resulting from periodic revaluations are recorded in earnings.
- Accounts receivable, long-term investments, bank loans, short-term debt, accounts payable and long-term debt are classified as loans and receivables and are initially measured at fair value. Subsequent valuations are measured at amortized cost using the effective interest method.

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 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 its 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 are affected by the cash flows of the hedged item. Similarly, any hedge ineffectiveness must be recorded in the consolidated statement of earnings in cash and cash equivalents and income from financial market transactions.
As a result of the application of this new standard, an unrealized loss on foreign exchange contracts of $86,828 was created at the date of the adoption of this Section.

Section 1506: *Accounting Changes*
This Section establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies and estimates, and correction of errors.

Future Accounting Changes
In December 2006 and January and June 2007, the CICA issued the following five accounting standards: Section 1400, *General Standards of Financial Statement Presentation*, Section 1535, *Capital Disclosures*, Section 3862, *Financial Instruments – Disclosures*, Section 3863, *Financial Instruments - Presentation*, and Section 3031, *Inventories*. These new standards will be effective for the Corporation on January 1, 2008.

Section 1400: General Standards of Financial Statement Presentation
This Section has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern.

Section 1535: Capital Disclosures
This new standard establishes 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 – Disclosure and *Section 3863: Financial Instruments - Presentation*
These new standards replace Section 3861, *Financial Instruments - Disclosure and Presentation*, revising and enhancing its disclosure requirements. This new standard has not changed the 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.

Section 3064: Goodwill and Intangible Assets

In January 2008, the CICA issued the following accounting standard: Section 3064, *Goodwill and Intangible Assets*. This new standard reinforces the approach under which assets are recorded only if they meet the definition of an asset and the recognition criteria for an asset. It also clarifies the application of the concept of matching costs with revenues, so as to eliminate the current practice of recognizing as assets items that do not meet the definition of an asset and the recognition criteria for an asset. On January 1, 2009, the Corporation will apply this standard retrospectively with restatement of prior periods. The Corporation is currently assessing the impact of the initial application of this standard on its consolidated financial statements.

15. Internal Controls Over Financial Reporting

Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer of the Corporation are in charge of establishing and maintaining disclosure controls and procedures, as defined by Multilateral Instrument 52-109 of the Canadian Securities Administrators.

An evaluation has been conducted to measure the effectiveness of controls and procedures used for the preparation of reporting documents.

Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the disclosure controls and procedures were effective and well designed at the close of the fiscal year ended December 31, 2007 and, more specifically, that the design of such controls and procedures provides reasonable assurance that they are advised of material information relating to the Corporation during the period in which these reporting documents are prepared.

Internal Control Over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer of the Corporation are in charge of establishing and maintaining an adequate internal control system in regard to financial reporting.

Based on the documentation of the principal financial processes, the Chief Executive Officer and the Chief Financial Officer are of the opinion that the work conducted enables them to conclude that the internal control over financial reporting as at December 31, 2007 is designed to provide reasonable assurance that the Corporation's financial reporting is reliable and that its financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

No changes in the Corporation's internal control over financial reporting have occurred during fiscal 2007 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting,

16. Contractual Obligations

In addition to the debts appearing in the balance sheet, the Corporation concluded lease agreements for the rental of certain premises and entered into operating leases for rolling stock and office equipment for a total of $6,928,616 ($7,672,291 in 2006). The following table details the Corporation's commitments for the coming years.

(in thousands of dollars)	**Total**	2008	2009	2010	2011	2012	After 2012
Long-term debt obligations	**$665**	$239	$250	$176	-	-	-
Capital leases	**$11**	$6	$5	-	-	-	-
Operating leases	**$6,929**	$1,612	$1,639	$1,660	$1,225	$790	$3
Total contractual obligations	**$7,605**	$1,857	$1,894	$1,836	$1,225	$790	$3

On January 30, 2008, the Corporation prepaid a long-term debt in the amount of $373,709.

17. Off-Balance Sheet Arrangements

Savaria did not enter into any off-balance sheet arrangements during fiscal 2007.

18. Related-Party Transactions

The Corporation recorded an amount of $59,600 ($48,856 in 2006) for services rendered by an accounting firm whose officer is a director of the Corporation. These transactions occurred in the normal course of business and were measured at the exchange amount, which is the amount of consideration established and agreed to by the Corporation and the related parties.

19. Financial Instruments

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, temporary investments, accounts receivable, long-term loans, accounts payable and long-term debt approximates their fair value due to their short term to maturity or because they are at rates that do not vary significantly from current market rates.

Credit Risk

The Corporation provides credit to its customers in the normal course of business. It carries out, on a continual basis, credit checks on its customers and maintains provisions for contingent credit losses which, once they materialize, are consistent with management's forecasts. The Corporation does not normally require a guarantor.

For the other debts, the Corporation assesses, on a continual basis, probable losses and sets up a provision for losses based on their estimated realizable value.

The Corporation minimizes its credit risks by conducting its operations with a wide variety of customers in several industries.

Currency Risk

The Corporation realizes approximately 58% (58% in 2006) of its sales in foreign currencies and, accordingly, is exposed to market risks related to foreign exchange fluctuations. The Corporation uses derivative financial instruments such as foreign exchange forward contracts to reduce its currency risk. Foreign exchange forward contracts are contracts under which the Corporation is obligated to sell U.S. dollars at a fixed rate.

20. Risks and Uncertainties

Savaria is involved in an industry subject to various risks and uncertainties. Its operating results and financial position could therefore be adversely affected by such financial risks, as well as the various factors described below. Those risks are not the only ones to which the Corporation is exposed. Thus, its business could potentially be affected by additional risks and uncertainties that are currently unknown or deemed rather unimportant.

Cost of Raw Materials

Savaria's products include hundreds of components manufactured by some 100 suppliers around the world. The price of such components can vary and affect the Corporation's profit margins. However, Savaria's flexible business model would enable it to change supplier if required.

Economic Conditions

The purchase of elevators is often a discretionary expense and, accordingly, sensitive to economic fluctuations and conditions in the residential real estate market.

Warranties

In the normal course of business, the Corporation assumes certain maintenance and repair costs under warranties offered on its products. The warranties cover a period from twenty-four (24) to thirty-six (36) months. Warranty provisions are established on the basis of estimates and assumptions. These provisions are based on management's past experience. If such estimates and assumptions prove inaccurate in the future, the effective costs to respect product warranties could differ from those recorded.

Tax Credits

Savaria benefits from research and development tax credits. These could be affected by any legislative change.

Future Tax Assets

Subsequent to the acquisition of Concord, future income tax assets were recorded as it is more likely than unlikely that Concord's loss carry-forwards will be utilized by Savaria Concord Lifts.

Competition

The North American accessibility industry consists of about ten companies in fierce competition. However, Savaria is the leader in Canada and the second largest company in the United States in its industry. Its large size provides it with major advantages, including: a high profile, an extensive distribution network, economies of scale and many foreign suppliers.

Ability to Successfully Integrate its Laval, Quebec Plant Operations into its Other Facilities

The recent closure of the Laval plant resulted in the transfer of this plant's operations to the Corporation's facility in Brampton, Ontario and that of a related party in Huizhou, China. The success of this project will partly depend on the ability of these facilities to integrate these new operations. The Corporation's ability to integrate any new business relies on proven methods and the experience of seasoned managers.

Dependence on the U.S. Market

In 2007, the percentage of Savaria's sales recorded in the United States totalled 53.7% (53.2% in 2006). The Corporation's profitability could therefore be affected by any major event having a negative impact on the U.S. economy or the trade relations between Canada and the United States.

Environment

Management believes that the Corporation's operations are in full compliance with environmental legislation.

Lawsuits

Savaria is not subject to any lawsuits that, in management's opinion, could have a material adverse impact on the Corporation's operating results or financial position.

Measurement Uncertainty

The Corporation holds investments in the amount of US$3 M that were invested in asset-backed commercial paper ("ABCP") issued by SLATE Trust and ROCKET Trust. This ABCP had a "R1-(high)" rating according to Dominion Bond Rating Services ("DBRS") and met the Corporation's investment criteria at its acquisition date. The ABCP held by the Corporation matured on various dates between August 30 and September 5, 2007. The scheduled payments have not been made and there is currently no active market for this ABCP.

The Canadian market for third-party ABCP suffered a liquidity disruption in mid-August 2007 following which a group of financial institutions and other parties agreed, pursuant to the Montreal Proposal ("the Proposal"), to a standstill period in respect of ABCP sold by 23 conduit issuers. Participants in the Proposal also agreed in principle to the conversion of the ABCP into longer-term financial instruments with maturities corresponding to the underlying assets. A Pan-Canadian Investors Committee was subsequently established to oversee the orderly restructuring of these instruments during the standstill period. A restructuring plan was announced on December 23, 2007 which is expected to be completed by March 2008. The Corporation is not a signatory to the Proposal. The Corporation is assessing its alternatives and recourses to recover the full value of this third-party ABCP.

There is currently uncertainty of the outcome of the restructuring plan being considered for these securities and in estimating the amount and timing of cash flows in any restructuring. As a result, the Corporation used its best judgment to assess the market conditions as at December 31, 2007 and following a probability weighted approach has estimated the fair value of these securities and classified this third-party ABCP as long-term investments. The valuation of each conduit has been limited by a lack of information about the underlying assets of each of the conduits as the information has not been made available by the conduits.

As a result of the valuation, the Corporation recognized a $253,971 ($219,812 after-tax) provision for losses in respect of third-party ABCP holdings reflecting the Corporation's estimated reduction in the fair value of these investments as at December 31, 2007, including a provision for its estimated share of the restructuring costs associated with the Proposal. The estimate of the fair market value of the third-party ABCP investments as at December 31, 2007 is subject to uncertainty. While management believes that its valuation technique is appropriate under the circumstances, changes in assumptions could affect the value of the third-party ABCP in the next quarters. The resolution of these uncertainties could be such that the ultimate fair value of these investments may vary from management's current best estimate and any such difference could affect our financial results.

21. Outlook

In 2008, management intends to continue implementing operational and administrative synergies, which will arise primarily from the further outsourcing of component manufacturing to the Corporation's Chinese partners. The purchasing volume from China has more than doubled over the past twelve months and management plans to continue in the same direction. In fact, the team of employees in China is gradually growing, having risen from 20 employees in January 2007 to some 35 as of today.

Management remains highly confident that the demand for accessibility products will continue growing given the aging population. On February 21, 2008, the Corporation announced that it had entered into a partnership with the Italian company Vimec for the North American distribution of Vimec's products and the European sale of Savaria's products through Vimec's distribution network. We believe this agreement will enable the Corporation to penetrate the European market and to increase its sales. Finally, Savaria will benefit from Concord's loss carry-forwards, which will continue to have a material impact on its future cash flows.

March 13, 2008

SAVARIA CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2007 AND 2006

SAVARIA CORPORATION
AS AT DECEMBER 31, 2007 AND 2006

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of "**SAVARIA CORPORATION**" are the responsibility of management and have been approved by the Board of Directors.

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgements.

To discharge its responsibilities, the company has developed and maintains systems of internal accounting controls and has established policies and procedures adapted to the industry in which it operates. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors must ensure that management fulfils its financial reporting responsibilities and is ultimately responsible for reviewing and approving the financial statements. The Audit Committee meets regularly with management to discuss the internal controls over the financial reporting process and financial reporting issues. The Committee also reviews the annual consolidated financial statements and the external auditors' report, and reports its findings to the Board for consideration when approving the financial statements for issuance to the company's shareholders. The auditors appointed by the shareholders have full access to the Audit Committee, with or without management being present.

These consolidated financial statements have been audited by the auditors appointed by the shareholders, PricewaterhouseCoopers LLP, Chartered Accountants.

Signed: Marcel Bourassa
Marcel Bourassa
Chairman of the Board and Chief Executive Officer

Signed: Jean-Marie Bourassa
Jean-Marie Bourassa, CA
Chief Financial Officer

PRICEWATERHOUSECOOPERS

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Auditors' Report

To the Shareholders of
Savaria Corporation

We have audited the consolidated balance sheets of **Savaria Corporation** as at December 31, 2007 and 2006 and the consolidated statements of earnings and comprehensive income, retained earnings and cash flows for each of the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and 2006 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

Signed: PriceWaterhouse Coopers

Chartered Accountants

Montréal, Quebec
March 13, 2008

SAVARIA CORPORATION
CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31

	2007	2006
SALES	**$ 57 519 690**	$ 60 298 325
OPERATING EXPENSES		
Cost of goods sold	**43 979 192**	44 266 913
Selling and administrative expenses	**10 417 605**	11 461 523
Amortization of fixed assets	**522 710**	601 301
Amortization of deferred development costs	**200 154**	176 220
Amortization of intangible assets	**241 037**	498 512
Write off of assets (note 6)	**110 004**	196 871
	55 470 702	57 201 340
OPERATING EARNINGS	**2 048 988**	3 096 985
OTHER REVENUES AND EXPENSES (note 7)	**(1 826 893)**	350 771
EARNINGS BEFORE INCOME TAXES	**222 095**	3 447 756
INCOME TAXES (note 20B)	**(546 022)**	(1 543 500)
NET EARNINGS (LOSS)	**$ (323 927)**	$ 1 904 256
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAXES		
Unrealized gains on foreign exchange contracts designated as cash flow hedges	**295 427**	-
Unrealized gains on foreign exchange contracts designated as cash flow hedges in prior periods transferred to net income in the current period	**(198 980)**	-
OTHER COMPREHENSIVE INCOME	**96 447**	-
COMPREHENSIVE INCOME	**$ (227 480)**	**$ 1 904 256**
Net earnings (loss) per common share		
Basic	**$ (0,011)**	$ 0,065
Diluted	**$ (0,011)**	$ 0,064
Average number of common shares outstanding (note 23B)		
Issued	**28 283 564**	29 454 272
Diluted	**28 370 876**	29 669 077

SAVARIA CORPORATION
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31

	2007	2006
BALANCE - beginning of year	**$ 8 793 905**	$ 8 300 945
NET EARNINGS (LOSS)	**(323 927)**	1 904 256
	8 469 978	10 205 201
Excess over book value of repurchased shares	**(988 921)**	(759 365)
DIVIDENDS on common shares	**(2 357 404)**	(651 931)
BALANCE - end of year	**$ 5 123 653**	$ 8 793 905

SAVARIA CORPORATION
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 4 714 615	$ 5 958 518
Temporary investments (note 15)	-	988 586
Accounts receivable (note 9)	8 924 070	10 181 470
Inventories (note 10)	9 682 137	9 674 333
Prepaid expenses	685 919	659 446
Foreign exchange forward contracts	14 009	-
Income taxes receivable	376 368	320 968
Current portion of long-term loans (note 16)	102 927	160 825
Future income taxes (note 20A)	912 221	1 642 953
	25 412 266	29 587 099
LAND AND BUILDING HELD FOR SALE (notes 11 and 32)	2 846 518	-
FIXED ASSETS (note 12)	1 796 159	5 061 349
DEFERRED DEVELOPMENT COSTS (note 13)	683 491	511 801
INTANGIBLE ASSETS (note 14)	1 222 629	1 358 123
GOODWILL	506 230	506 230
LONG-TERM INVESTMENTS (note 15)	2 719 929	-
LONG-TERM LOANS (note 16)	204 799	247 547
FUTURE INCOME TAXES (note 20A)	3 312 659	2 988 545
	$ 38 704 680	$ 40 260 694
LIABILITIES		
CURRENT LIABILITIES		
Bank loans (note 17)	$ 940 000	$ 650 000
Short-term debt (note 15)	3 000 000	-
Current liability related to assets held for sale (note 11)	3 750 000	-
Accounts payable (note 18)	6 820 596	7 189 372
Warranty provision (note 21)	267 976	280 607
Current portion of long-term debt (note 19)	244 212	770 382
	15 022 784	8 890 361
LONG-TERM DEBT (note 19)	430 962	4 495 170
WARRANTY PROVISION (note 21)	516 605	538 647
NET LIABILITY OF A VIE (note 22)	111 241	-
	16 081 592	13 924 178
SHAREHOLDERS' EQUITY		
Capital stock (note 23)	15 949 915	16 244 789
Contributed suplus (note 24)	1 539 901	1 297 822
Retained earnings	5 123 653	8 793 905
Accumulated other comprehensive income (note 25)	9 619	-
	22 623 088	26 336 516
	$ 38 704 680	$ 40 260 694

ON BEHALF OF THE BOARD OF DIRECTORS

Signed: Marcel Bourassa
_____________________________, Director
Marcel Bourassa

Signed: Jean-Marie Bourassa
_____________________________, Director
Jean-Marie Bourassa C.A.

SAVARIA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2007	2006
OPERATING ACTIVITIES		
Net earnings (loss)	**$ (323 927)**	$ 1 904 256
Adjustments for :		
Amortization of fixed assets	**522 710**	601 301
Amortization of deferred development costs	**200 154**	176 220
Amortization of intangible assets	**241 037**	498 512
Write off of assets (note 6)	**110 004**	196 871
Write down of investments in ABCP (note 15)	**253 971**	-
Future income taxes	**402 228**	1 217 811
Remuneration expense on options granted	**242 079**	209 548
Change in warranty provision	**(34 673)**	192 289
Loss on disposal of fixed assets	**9 322**	83 654
Others	**405**	(3 011)
	1 623 310	5 077 451
Net changes in non-cash working capital items (note 5B)	**643 818**	(3 419 297)
Cash flows from operating activities	**2 267 128**	1 658 154
INVESTING ACTIVITIES		
Changes in temporary investments	**988 586**	2 951 774
Changes in long-term investments	**(2 984 400)**	-
Proceeds from disposal of fixed assets	**2 750**	32 762
Additions to fixed assets	**(216 110)**	(239 602)
Deferred development costs	**(371 844)**	(296 239)
Deffered start-up costs	**-**	(39 450)
Additions to other assets	**(115 547)**	-
Increase in long-term loans	**-**	(113 900)
Proceeds from long-term loans	**200 235**	131 252
Cash flows from (used in) investing activities	**(2 496 330)**	2 426 597
FINANCING ACTIVITIES		
Increase in bank loans	**290 000**	650 000
Increase in short-term debt	**3 000 000**	-
Increase in long-term debt	**-**	500 000
Repayment of long-term debt	**(774 743)**	(2 052 193)
Contribution from a VIE	**111 241**	-
Dividends paid on common shares	**(2 357 404)**	(651 931)
Shares repurchased for cancellation	**(1 508 795)**	(1 115 308)
Issuance of shares	**225 000**	-
Cash flows used in financing activities	**(1 014 701)**	(2 669 432)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(1 243 903)**	1 415 319
CASH AND CASH EQUIVALENTS - beginning of year	**5 958 518**	4 543 199
CASH AND CASH EQUIVALENTS - end of year	**$ 4 714 615**	$ 5 958 518

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

1 . NATURE OF ACTIVITIES

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 for the physically handicapped.

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the following significant accounting policies :

A) Principles of Consolidation

These consolidated financial statements comprise the accounts of the Corporation and its subsidiaries and variable interest entities ("VIE"), namely :

Subsidiaries	December 31, 2007 %	December 31, 2006 %
Savaria Concord Lifts Inc.	100	100
Weber Accessibility Systems, Inc.	100	100
Richardson Elevators (1191852 Ontario Limited, formerly Robertson)	100	100
Van-Action (2005) Inc.	100	100
Concord Elevator Holdings Inc.	100	100
Savaria (Huizhou) Mechanical Equipment Manufacturing Co., LTD	VIE	n/a

Intercompany accounts and transactions have been eliminated.

B) Use of Estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates (see note 15).

C) Foreign Currencies

The U.S. and Chinese subsidiaries are defined as integrated foreign operations. The Corporation follows the temporal method to translate its foreign currency balances and those of its U.S. and Chinese subsidiaries. Under this method, monetary assets and liabilities are translated at the rates of exchange in effect at balance sheet date and non-monetary assets and liabilities are measured at historical rates. Revenues and expenses are translated at the exchange rate in effect at the date of the transaction. Exchange gains and losses are included in net earnings for the year.

D) Revenue Recognition

The Corporation recognizes the sale of its products as they are delivered and the risks and rewards of ownership are transferred to customers.

E) Impairment of Long-Lived Assets

The Corporation reviews, when circumstances indicate it to be necessary, the carrying values of its long-lived assets by comparing the carrying amount of the asset or group of assets to the expected future undiscounted cash flows to be generated by the asset or group of assets. An impairment loss is recognized when the carrying amount of an asset or group of assets held for use exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. The impairment loss is measured as the amount by which the asset carrying amount exceeds its fair value, based on quoted market prices, when available, or on the estimated current value of future cash flows.

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

F) Income Taxes

The Corporation follows the liability method of accounting for income taxes, as recommended by the Canadian Institute of Chartered Accountants ("CICA"). Under this method, income taxes payable are accounted for as estimated income taxes to be paid for the current fiscal year, and future income taxes are accounted for based on the temporary differences between the tax and accounting values of the assets and liabilities. Future income tax assets and liabilities are measured using income tax rates and the enacted or substantively enacted laws which are expected to be in effect for taxable income for the year in which the assets and liabilities will be discharged or recovered. Future income tax assets which arise from tax losses and temporary differences are accounted for when it is more likely than not that the asset will be realized.

G) Cash and Cash Equivalents

Cash and cash equivalents consist of bank balances and temporary investments with an initial maturity of three months or less and are presented at cost, which is considered to approximate fair market value.

H) Temporary Investments

Temporary investments are accounted for at the lower of cost and market value.

I) Trade Receivable

The Corporation establishes an allowance for uncollectible doubtful accounts receivable based on the specific credit risk of its customers and historical trends.

J) Inventories

Raw materials and sub-assembly components are valued at the lower of cost and replacement cost, with cost being determined using the first-in, first-out method.

Work in process and finished goods inventories are valued at the lower of cost and net realizable value. Work in process includes raw materials, direct labour and factory overhead. The cost of finished goods is determined using the specific cost method.

K) Fixed Assets and Amortization

Fixed assets are accounted for at cost. Amortization is based on their estimated useful life using the following methods and rates or period :

	Method	Rate or period
Building	Declining balance	4%
Machinery and equipment	Declining balance	20%
Office furniture	Declining balance	20%
Rolling stock	Declining balance	30%
Computer hardware	Declining balance	30%
Leasehold improvements	Straight-line	Terms of the leases

L) Deferred Development Costs

Development costs are accounted for at cost and are deferred to future periods if all of the following criteria are satisfied: the product is clearly defined, the technical feasibility of the product has been established, management has indicated its intention to manufacture the product, the future market for the product is clearly defined, and the Corporation has adequate resources to complete the project. Development costs are amortized using the straight-line method over a period of three years.

M) Intangible Assets

Intangible assets consist of trademarks, client lists and computer software. Trademarks are not amortized since they have an indefinite life span. Client lists are amortized by using the straight-line method over their useful lives of two to ten years. Computer software is amortized by using the declining balance method with a rate of 30%.

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

N) Goodwill

Goodwill is not amortized, instead the Corporation assesses periodically whether a provision for impairment in the value of goodwill should be recorded against earnings. This is accomplished by determining whether projected discounted future cash flows exceed the net book value of the business unit. Goodwill is tested for impairment annually on December 31, and when an event or circumstance occurs that could potentially result in a permanent decline in value.

The Corporation has performed impairment tests on the carrying amount of goodwill as at December 31, 2007 and has concluded that no impairment loss should be recognized.

O) Earnings Per Share

Basic net earnings per share is based on the weighted average of common shares issued and outstanding, and is calculated by dividing net earnings applicable to common shares by the weighted average number of shares outstanding during the period. Diluted net earnings per share is calculated by dividing net earnings applicable to common shares by the weighted average number of shares used in the basic earnings per share calculation plus the number of shares that would be issued assuming that all potentially dilutive stock options granted under the Corporation’s share option plan were issued using the treasury stock method.

P) Stock-Based Compensation

The Corporation records stock-based compensation to its employees and directors at fair value. According to the fair value method, an employee compensation expense is charged to operating expenses based on the fair value of the stock options issued over their vesting period. Upon the exercise of stock options, capital stock is credited in the amount paid plus the corresponding employee compensation expense previously recorded.

Q) Derivative Instruments

Derivative instruments are contracts that require or provide an option to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts. Derivative instruments are used by the Corporation in the management of its foreign currency and not for speculative purposes.

In order for a derivative to qualify for hedge accounting, the hedge relationship must be designated and formally documented at its inception, outlining the particular risk management objective and strategy, the specific asset, liability or cash flow being hedged, as well as how effectiveness is assessed. The derivative must be effective in accomplishing the objective of offsetting either changes in the fair value or cash flow attributable to the risk being hedged both at inception and over the term of the hedging relationship.

The Corporation hedges its foreign exchange exposure on anticipated sales denominated in U.S. dollars through the use of forward contracts. Resulting gains and losses are recognized when the designated sale is recognized and are included in “Sales.”

3 . CHANGES IN ACCOUNTING POLICIES

A) 2007

On January 1, 2007, the Corporation adopted the following recommendations of the "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.

3 . CHANGES IN ACCOUNTING POLICIES (Cont'd)

The adoption of this Section resulted in the following classifications :
- Cash and cash equivalents are classified as assets held for trading and are measured at fair value. Gains and losses resulting from periodic revaluations are recorded in earnings.
- Accounts receivable, long-term investments, bank loans, short-term debt, accounts payable and long-term debt are classified as loans and receivables and are initially measured at fair value. Subsequent valuations are measured at amortized cost using the effective interest method.

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 are affected by the cash flows of the hedged item. Similarly, any hedge ineffectiveness must be recorded in the consolidated statement of earnings in cash and cash equivalents and income from financial market operations.

As a result of the application of these new standards, an unrealized loss on foreign exchange contracts was created at the date of the adoption of this Section (see note 25).

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 and June 2007, the CICA issued the following five accounting standards: Section 1400, *General Standards on Financial Statement Presentation* , 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.

Section 1400 : General standards on Financial Statement Presentation

This section has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern.

3 . CHANGES IN ACCOUNTING POLICIES (Cont'd)

Section 1535 : Capital Disclosures

This new standard establishes disclosure requirements concerning capital such as : qualitative information about its objectives, policies and processes for managing capital; quantitative data about what an entity 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. This new standard has not changed the 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 recommandations on its financial statements, it does not expect the recommandations to have a significant impact on its financial position, earnings or cash flows.

Section 3064 : Goodwill and Intangible Assets

In January 2008, the CICA issued the following accounting standard: Section 3064, *Goodwill and Intangible Assets* . This new standard reinforces the approach under which assets are recorded only if they meet the definition of an asset and the recognition criteria for an asset. It also clarifies the application of the concept of matching costs with revenues, so as to eliminate the current practice of recognizing as assets items that do not meet the definition of an asset and the recognition criteria for an asset. On January 1, 2009, the Corporation will apply this standard retrospectively with restatement of prior periods. The Corporation is currently assessing the impact of the initial application of this standard on its consolidated financial statements.

4 . BUSINESS COMBINATIONS

2006

On September 14, 2005, the Corporation acquired 100% of the outstanding capital stock of Concord Elevator Holdings inc. (Concord), a U.S. company that owns all the shares of Concord Elevator Inc., a Canadian company operating in the same business sector as Savaria Concord Lifts Inc. This transaction was paid for by the issuance of 4,249,984 shares, of which 750,000 shares at $1.40 per share were under escrow in order to protect the Corporation against any potential lawsuits or payables arising from events prior to the date of acquisition.

This acquisition was accounted for using the purchase method, and the operating results have been included in the consolidated financial statements from the dates of acquisition.

In 2006, the Corporation received a notice of assessment in connection with Concord Elevator Inc.'s corporate income taxes. This notice, which relates to periods prior to the date on which the subsidiary was acquired, resulted in a reduction in the loss carry-forwards recognized for the valuation of future income taxes. In consideration thereof, 483,532 shares under escrow were revoked. The net result was a $480,733 reduction in future income taxes and a $119,187 net reduction in intangible assets, for a total reduction of $599,920 in the acquisition cost, representing the $676,945 value of the revoked shares net of revocation fees of $77,025.

The Corporation recorded a tax credit receivable of $155,000 related to years prior to Concord's acquisition. In consideration thereof, intangible assets were reduced by the same amount.

The Corporation also reversed a $440,327 provision for deductions at source on payments made to a non-resident affiliated company that will not be paid subsequent to negotiations with tax authorities, as well as a $65,250 provision for severance pay. Intangible assets were reduced by $505,577 in consideration thereof.

The reduction in the value of the intangible assets described above raised future income taxes by $213,537, and eventually reduced intangible assets by a commensurate amount. These items are of a non-cash nature and had no impact on cash flows; only the purchase price allocation was affected.

4 . BUSINESS COMBINATIONS (Cont'd)

The final purchase price allocation is detailed as follows :

Assets acquired	
Current assets	$ 8 425 162
Fixed assets	1 909 330
Long-term assets	36 479
Client lists	946 567
Business licence	299 932
Future income tax assets	5 433 804
Liabilities assumed	
Bank indebtedness	(583 032)
Current liabilities	(5 747 411)
Note payable to Savaria Corporation	(1 009 609)
Long-term debt	(3 359 090)
Warranty provision	(399 037)
Net identifiable assets acquired	5 953 095
Plus : Bank indebtedness	583 032
Less : Fair value of capital stock issued (note 23A)	(5 273 033)
Less : Other adjustments	(11 774)
Total net cash used for these acquisitions	$ 1 251 320

5 . CASH FLOWS

A. Interest and Income Taxes

Cash flows related to interest and income taxes are as follows :

	2007	2006
Interest paid	**$ 449 245**	$ 512 484
Income taxes paid	**$ 31 825**	$ 272 049

B. Net Changes in Non-cash Working Capital Items

	2007	2006
Accounts receivable	**$ 1 102 271**	$ (640 830)
Inventories	**(7 804)**	(896 679)
Prepaid expenses	**(26 473)**	297 030
Income taxes receivable	**(55 400)**	(226 164)
Accounts payable	**(368 776)**	(1 952 654)
	$ 643 818	$ (3 419 297)

C. Non-cash Transactions

In 2007, there were several non-cash transactions related to the share cancellations (note 23A), the conversion of balances receivable into long-term loans (note 16) and the issuance of a loan to an employee (note 23A).

6 . WRITE OFF OF ASSETS

A) Intangible assets

In 2007, a business licence amounting to $10,004 was written off. In June 2006, deferred start-up costs amounting to $146,871 were written off because management discontinued its direct sales activities in Florida. Furthermore, a deposit of $50,000 given for the purchase of land was also written off in 2006. Those elements were non-monetary items and had no impact on the consolidated cash flow.

B) Fixed assets

In 2007, following the closure of its plant in Laval, the Corporation booked an impairment charge for fixed assets that were no longer used in its operations in an amount of $100,000.

7 . OTHER REVENUES AND EXPENSES

	2007	2006
Interest and dividend income	**$ 284 169**	$ 378 907
Gain (loss) on foreign currency exchange	**(926 841)**	350 844
Interest on long-term debt	**(287 793)**	(393 720)
Interest expense and bank charges	**(161 452)**	(118 764)
Restructuring expense (note 8)	**(223 871)**	-
Write down of investments in ABCP (note 15)	**(253 971)**	-
Loss of a VIE (note 22)	**(164 141)**	-
Remuneration expense relating to an employee loan for stock purchases (note 23)	**(107 821)**	-
Loss on disposal of fixed assets	**(9 322)**	(83 654)
Other revenues	**24 150**	217 158
	$ (1 826 893)	$ 350 771

8 . RESTRUCTURING EXPENSES

The following table summarizes the components of restructuring charges :

	2007
Severance	**$ 171 403**
Others	**52 468**
	$ 223 871

On December 21, 2007, the Corporation proceeded with the closure of its manufacturing facility located in Laval, Quebec. During the year ended December 31, 2007, the Corporation recorded charges relating to this restructuring in the amount of $223,871, including severance charges of $171,403. The land and building located at this facility as well as the loan related to these assets were reclassified as assets and liability held for sale (see note 11).

9 . ACCOUNTS RECEIVABLE

	2007	2006
Trade in Canadian dollars	**$ 3 812 643**	$ 4 774 612
Trade in U.S. dollars	**5 548 051**	5 493 662
	9 360 694	10 268 274
Allowance for doubtful accounts	**(782 549)**	(679 723)
	8 578 145	9 588 551
Sales taxes recoverable	**302 792**	545 898
Others	**43 133**	47 021
	$ 8 924 070	$ 10 181 470

10 . INVENTORIES

	2007	2006
Raw materials and sub-assembly components	$ 8 651 892	$ 7 935 854
Work in process	335 451	503 363
Finished goods	694 794	1 235 116
	$ 9 682 137	$ 9 674 333

11 . ASSETS HELD FOR SALE AND CURRENT LIABILITY RELATED TO ASSETS HELD FOR SALE

Assets held for sale and a current liability related to those assets presented in the balance sheet are represented by :

	2007
Asset	
Land and building	$ 2 846 518
Liability	
Debt maturing in May 2008 (note 19)	$ 3 750 000

On October 11, 2007, the Corporation announced the transfer of its production to its facilities in Brampton, Ontario and Huizhou, China resulting in the closure of its Laval plant effective December 21, 2007. This closure will result in the sale of the building in Laval as well as the repayment of the debt associated with the building.

12 . FIXED ASSETS

	2007		
	Cost	Accumulated amortization	Net
Machinery and equipment	$ 7 212 728	$ 6 204 019	$ 1 008 709
Office furniture	768 941	679 852	89 089
Rolling stock	273 705	111 672	162 033
Computer hardware	876 029	690 435	185 594
Leasehold improvements	1 308 825	958 091	350 734
	$ 10 440 228	$ 8 644 069	$ 1 796 159

As at December 31, 2007, computer hardware included assets under capital leases with a cost of $63,070 and accumulated amortization of $35,204.

	2006		
	Cost	Accumulated amortization	Net
Land	$ 540 000	$ -	$ 540 000
Building	2 769 148	376 331	2 392 817
Machinery and equipment	7 144 029	5 920 805	1 223 224
Office furniture	762 936	658 028	104 908
Rolling stock	285 862	73 661	212 201
Computer hardware	826 504	621 906	204 598
Leasehold improvements	1 273 450	889 849	383 601
	$ 13 601 929	$ 8 540 580	$ 5 061 349

As at December 31, 2006, rolling stock and computer hardware include assets under capital leases with a cost of $97,301 and accumulated amortization of $54,863.

13 . DEFERRED DEVELOPMENT COSTS

	2007		
	Cost	**Accumulated amortization**	**Net**
Deferred development costs (note 30)	**$ 1 055 483**	**$ 371 992**	**$ 683 491**

	2006		
	Cost	Accumulated amortization	Net
Deferred development costs (note 30)	$ 794 309	$ 282 508	$ 511 801

14 . INTANGIBLE ASSETS

	2007			2006
	Cost	**Accumulated amortization**	**Net**	Net
Trademarks	**$ 299 932**	**$ -**	**$ 299 932**	$ 309 936
Client lists	**983 047**	**249 457**	**733 590**	918 800
Software	**765 973**	**576 866**	**189 107**	129 387
	$ 2 048 952	**$ 826 323**	**$ 1 222 629**	$ 1 358 123

15 . INVESTMENTS

	2007	2006
Temporary investments		
Commercial paper (fair market value in 2006 of $988,586)	**$ -**	$ 988 586
Long-term investments		
Asset-backed commercial paper (fair market value, see below)	**2 719 929**	-
	$ 2 719 929	$ 988 586

The Corporation holds investments in the amount of $2,973,900 (US $3,000,000) that were invested in asset-backed commercial paper ("ABCP") issued by SLATE Trust and ROCKET Trust. This ABCP had a "R1-(high)" rating according to Dominion Bond Rating Service ("DBRS") and met the Corporation's investment criteria at its acquisition date. The ABCP held by the Corporation matured on various dates between August 30 and September 5, 2007. The scheduled payments have not been made and there is currently no active market for this ABCP.

The Canadian market for third-party ABCP suffered a liquidity disruption in mid-August 2007 following which a group of financial institutions and other parties agreed, pursuant to the Montreal Proposal, ("the Proposal"), to a standstill period in respect of ABCP sold by twenty-three conduit issuers. Participants to the Proposal also agreed in principle to the conversion of the ABCP investments into longer-term financial instruments with maturities corresponding to the underlying assets. A Pan-Canadian Investors Committee ("the Committee") was subsequently established to oversee the orderly restructuring of these instruments during this standstill period. A restructuring plan was announced on December 23, 2007 which is anticipated to be completed by March, 2008. The Corporation is not a signatory to the Proposal. The Corporation is assessing its alternatives and recourses to recover the full value of these third-party ABCP.

There is currently uncertainty of the outcome of the restructuring plan being considered for these securities and in estimating the amount and timing of cash flows in any restructuring. As a result, the Corporation used its best judgement to assess the market conditions at December 31, 2007 and following a probability weighted approach has estimated the fair value of these securities and classified these third-party ABCP as long-term investments. The valuation of each conduit has been limited by a lack of information about the underlying assets of each of the conduits as the information has not been made available by the conduits.

15 . INVESTMENTS (Con't)

As a result of the valuation, the Corporation has recognized a $253,971 ($219,812 after-tax) provision for losses in respect of third-party ABCP holdings reflecting the Corporation's estimated reduction in the fair value of these investments as at December 31, 2007, including a provision for its estimated share of restructuring costs associated with the Proposal. This estimate of the fair market value of the third-party ABCP investments as at December 31, 2007 is subject to uncertainty. While management believes that its valuation technique is appropriate in the circumstances, changes in assumptions could affect the value of third-party ABCP securities in the next fiscal quarters. The resolution of these uncertainties could be such that the ultimate fair market value of these investments may vary from management's current best estimate and any such difference could affect the financial results of the Corporation.

On October 15, 2007, the Corporation entered into a temporary financing agreement with its bank in order to ensure the sufficient availability of liquidity to meet its financial obligations while awaiting the settlement of the ABCP investments. The ABCP was secured for this credit facility in the amount of $3,000,000 that was drawn in total as at December 31, 2007. The credit facility bears interest at prime rate minus 1,5% and must be repaid in full once the ABCP can be sold.

16 . LONG-TERM LOANS

	2007	2006
The participating long-term loan is part of an exclusive distribution agreement for the Corporation's products with a company in the United Arab Emirates. The loan amount of $99,130 (US $100,000), was disbursed in 2004. The balance of the loan as at December 31, 2007 is $24,783 (US $25,000). The loan is payable in four annual instalments, plus annual royalties if the Corporation respects certains terms and conditions, ending in December 2008.	**$ 24 783**	$ 58 270
The long-term loan is part of an exclusive distribution agreement for the Corporation's products with a U.S. company. The original amount of the loan is $198,260 (US $200,000) of which $99,130 (US $100,000) was disbursed in 2005 and $99,130 (US $100,000) in January 2006. The balance of the loan as at December 31, 2007 is $158,608 (US $160,000). The loan is payable in ten annual instalments beginning in June 2006.	**158 608**	209 772
Amount receivable on conversion of accounts receivable from a U.S. company. The original amount of the loan resulting from the conversion in March 2006 is $188,757 (US $190,414). The balance of the loan was repaid in 2007.	**-**	140 330
Amount receivable with interest at a rate of 4.23% on conversion of accounts receivable from a U.S. company. The original amount of the loan resulting from the conversion in September 2007 is $143,739 (US $145,000). The balance of the loan as at December 31, 2007 is $124,335 (US $125,426). Repayable in 29 equal monthly instalments of US $5,250, capital and interest, starting in September 2007.	**124 335**	-
	307 726	408 372
Less: Current portion	**102 927**	160 825
	$ 204 799	$ 247 547

Principal repayments on long-term loans during the next years are as follows :

2008	2009	2010	2011	2012	2013 and thereafter
$ 102 927	$ 80 657	$ 25 012	$ 19 826	$ 19 826	$ 59 478

17 . BANK LOANS

The Corporation signed an agreement with a financial institution for a $1,500,000 line of credit for its subsidiary Van-Action (2005) Inc., bearing interest at prime rate plus 0.5%. A movable hypothec from Van-Action in the amount of $3,000,000 on certain assets of the subsidiary, a guarantee pursuant to Section 427 of the Bank Act on inventories, as well as a surety bond from the parent company in the amount of $250,000 have been pledged as securities. The balance of the line of credit amounted to $250,000 as at December 31, 2007 (2006-$650,000).

The Corporation also signed an agreement with a financial institution for a $7,000,000 credit facility, bearing interest at prime rate, for its subsidiary Savaria Concord Lifts Inc. A $9,075,000 first ranking movable hypothec and a general guarantee agreement registered in the province of Ontario on all the subsidiary's present and future inventories and receivables, and a guarantee on inventories pursuant to Section 427 of the Bank Act have been pledged as securities. The balance of the line of credit amounted to $690,000 as at December 31, 2007 (2006-unused).

18 . ACCOUNTS PAYABLE

	2007	2006
Trade and accrued liabilities in Canadian dollars	**$ 5 004 242**	$ 5 259 901
Trade and accrued liabilities in U.S. dollars and other currencies	**680 547**	1 026 309
Salaries and withholding taxes	**572 343**	191 258
Vacations payable	**304 800**	330 186
Client deposits	**258 664**	381 718
	$ 6 820 596	$ 7 189 372

19 . LONG-TERM DEBT

	2007	2006
Loan in the original amount of $5,000,000 at an interest rate of 5.3%; a mortgage on a Corporation building with a net book value of $2,846,518 and a first ranking hypothec on the machinery and equipment and office furniture of Savaria Concord Lifts Inc. with a net book value of $265,811 pledged as security; repayable in semi-annual instalments of $250,000 plus interest, renewable in May 2008. The loan is classified as a current liability related to assets held for sale as at December 31, 2007 (see note 11).	**$ -**	$ 4 250 000
Loan in the original amount of $569,998 (US $575,000) at an interest rate of 9.5%; machinery with a net book value of $513,954 pledged as security; repayable in monthly instalments of $11,971 (US $12,076), principal and interest, maturing in December 2010. The debt was repaid early in January 2008.	**373 709**	560 178
Loan in the original amount of $500,000. This loan is divided into two portions: an initial $250,000 portion bearing interest at prime rate plus 1.0%, and a second $250,000 portion bearing interest at prime rate plus 1.0%. It is repayable in monthly instalments of $10,417 plus interest, maturing in April 2010. A movable hypothec from Van Action in the amount of $3,000,000 on certain assets of the subsidiary, a guarantee pursuant to Section 427 of the Bank Act on inventories, as well as a surety bond from the parent company in the amount of $250,000 have been pledged as security.	**291 666**	416 667
Obligations under capital leases with original amounts totalling $63,070, at an interest rate of 10.8%; computer hardware with a net book value totalling $27,866 pledged as security; repayable in monthly instalments of $1,547 until January 2008 and $403 afterwards including principal and interest, maturing between January 2008 and December 2009.	**9 799**	38 707
	675 174	5 265 552
Less: Current portion	**244 212**	770 382
	$ 430 962	$ 4 495 170

Principal repayments on long-term debt, except on obligations under capital leases, during the next years are as follows :

2008	2009	2010
$ 238 977	$ 250 289	$ 176 109

Principal repayments on obligations under capital leases during the next years are as follows :

Years ended December 31 :	2008	$ 5 978
	2009	4 833
		10 811
Less: Interest at a weighted average rate of 10.80%		1 012
		9 799
Less: Current portion		5 235
		$ 4 564

20 . INCOME TAXES AND FUTURE INCOME TAXES

A) Future Income Taxes

The tax effects of temporary differences that give rise to a significant portion of the future income tax assets and liabilities are as follows :

	2007	2006
CURRENT FUTURE INCOME TAX ASSETS		
Losses carried foward	**$ 794 113**	$ 1 470 654
Warranty provisions	**83 813**	84 045
Stock exchange listing costs	**26 907**	56 936
Non-deductible provisions	**15 670**	49 755
Investment tax credits	**(6 407)**	(20 587)
Foreign exchange forward contracts	**(4 390)**	-
Others	**2 515**	2 150
	912 221	1 642 953
LONG-TERM FUTURE INCOME TAX ASSETS		
Losses carried foward	**$ 3 525 360**	$ 3 170 670
Inventory provision	**220 971**	263 418
Warranty provisions	**139 380**	155 825
Other short-term liability	**-**	105 672
Stock exchange listing costs	**26 907**	55 556
Unrealized gain on foreign exchange contracts	**(15 212)**	(6 100)
Fixed assets	**(54 480)**	(79 595)
Deferred development costs	**149 477**	(73 114)
Investment tax credits	**(121 081)**	-
Provision for devaluation of losses carried forward	**(425 851)**	(425 851)
Intangible assets	**(135 327)**	(198 492)
Others	**2 515**	20 556
	$ 3 312 659	$ 2 988 545

B) Income Taxes

The Corporation's provisions for income taxes consist of the following :

	2007	2006
Earnings before income taxes	**$ 222 095**	$ 3 447 756
Provision for income taxes computed using statutory federal-provincial tax rate of 33% (2006-33%)	**$ 73 291**	$ 1 137 759
Decrease in future income taxes resulting from reduction under the 2007 budget and economic statement (2006 federal budget)	**252 711**	193 888
Expenses that are only 50% deductible for tax purposes	**88 077**	-
Non-deductible remuneration expense on options granted	**80 297**	69 654
Advantage of unrecognized net operating losses of a VIE	**54 560**	-
Advantage of unrecognized net operating losses of a subsidiary and write down of recognized prior losses	**-**	174 165
Others	**(2 914)**	(31 966)
	$ 546 022	$ 1 543 500
CURRENT AND FUTURE INCOME TAXES		
Income taxes are detailed as follows :		
Current	**$ 143 794**	$ 325 689
Future	**402 228**	1 217 811
	$ 546 022	$ 1 543 500

20 . INCOME TAXES AND FUTURE INCOME TAXES (Cont'd)

C) Losses Carried Forward

As at December 31, 2007, the Corporation had Canadian, Quebec and Ontario net operating losses carried forward of $11,939,000 (2006-$13,192,000), $12,002,000 (2006-$13,309,000) and $10,739,000 (2006-$11,282,000) respectively. These losses carried forward expire at various dates between 2009 and 2027.

As at December 31, 2007, the Corporation had United States federal and state net operating losses carried forward of $843,000 (US $850,000) and $873,000 (US $881,000) respectively. As at December 31, 2006, these amounts were $851,000 (US $859,000) and $889,000 (US $897,000) respectively. Future income taxes have not been recorded on these losses. They expire at various dates between 2014 and 2027.

21 . WARRANTY PROVISIONS

During the normal course of its business, the Corporation assumes certain maintenance and repair costs under warranties offered on its products. The warranties cover a period of twenry-four (24) to thirty-six (36) months. During the fiscal year, the Corporation decreased the provision by $34,673 (2006-increase of $192,289). This expense is based on past experience and is recorded as current and long-term liabilities under the heading Warranty provisions. Nevertheless, conditions may change and a significant amount may need to be recorded.

22 . VARIABLE INTEREST ENTITY

The Corporation has included a VIE in the scope of its consolidation as at December 31, 2007. The entity in question is held by a related party but the Corporation plans to transfer the capital stock in the entity to its own name by the end of the first semester of 2008. The entity is located in China and assembles parts and finished goods for the benefit of the Coporation and its subsidiaries.

The effect on the balance sheet items is as follows as of December 31, 2007 :

	2007
Assets	
Cash and cash equivalents	$ 10 236
Inventories	74 710
Prepaid expenses	111 440
Fixed assets	93 231
Intangible assets	2 146
	$ 291 763
Liabilities	
Accounts payable	$ 131 541
Deferred income	213 122
	344 663
Shareholder's equity	
Contribution from a VIE	111 241
Deficit (note 7)	(164 141)
	(52 900)
	$ 291 763

The liabilities recognized as a result of consolidating this VIE do not represent additional claims on the Corporation's general assets; rather, they represent claims against the specific assets of the consolidated VIE. Conversely, assets recognized as a result of consolidating this VIE do not represent additional assets that could be used to satisfy claims against the Corporation's general assets. Additionally, the consolidation of this VIE did not result in any change in the underlying tax, legal or credit exposure of the Corporation.

23 . 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

On September 14, 2005, the Corporation issued 4,249,984 common shares at $1.40 per share in order to acquire Concord. The cost per share was based on the market price that applied on the date of the acquisition but which was discounted to reflect a two-year sales restriction, one third of which was freed up in September 2007 and the other two thirds will be freed up in September 2008 and 2009. Of the total shares issued, 500,000 shares at $1.50 per share are still under escrow to protect the Corporation against potential lawsuits or payments arising from events prior to the date of acquisition.

In the first quarter, the Corporation issued 475,000 common shares following the exercise of stock options at $1 per share; in consideration, a long-term loan in the amount of $250,000 has been issued to a director who is also an employee, generating a net cash flow of $225,000. The long-term loan is classified as a reduction of capital stock and the number of issued stock options was increased by 250,000 options (note 26). A remuneration expense of $107,821 was calculated for these options, considered as issued, and accounted for in Other Revenues and Expenses. Eventual loan repayments will result in a corresponding increase in capital stock. The loan bears interest at an annual rate of 5% and is secured by 200,000 common shares of the Corporation.

Issued :

2007	**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	**(911 000)**	**(519 874)**
	28 162 414	**$ 16 199 915**
Reversal of an exercice of stock options following the issuance of an employee loan	**(250 000)**	**$ (250 000)**
Balance as at December 31, 2007	**27 912 414**	**$ 15 949 915**

On September 29, 2006, the Corporation signed an amendment to an agreement to purchase a client list for the Toronto area. The purchase price, which had already been paid, was revised to $125,000. Therefore, the 70,755 shares that were to be issued at $1.40 per share were reversed, causing a decrease in intangible assets of $74,057 and a decrease in accounts receivable of $25,000.

On October 4, 2006, 483,532 shares under escrow at $1.40 per share were revoked subsequent to a price adjustment for the purchase of Concord. In 2005, 4,249,984 shares were issued. Therefore, a total of 3,766,452 shares were issued for that acquisition.

2006	Common shares	
	Number	Amount
Balance as at December 31, 2005	29 774 001	$ 17 376 734
Business combination purchase price adjustment (note 4)	(483 532)	(676 945)
Purchase price adjustment for a client list	(70 755)	(99 057)
Cancelled following issuer bid	(621 300)	(355 943)
Balance as at December 31, 2006	28 598 414	$ 16 244 789

23 . CAPITAL STOCK (Cont'd)

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

	2007	2006
Weighted average number of shares outstanding	**28 283 564**	29 454 272
Effect of potential dilutive securities		
Stock options	**87 312**	214 805
Weighted average number of shares outstanding for use in determining diluted earnings per share	**28 370 876**	29 669 077

24 . CONTRIBUTED SURPLUS

	2007	2006
Balance - beginning of year	**$ 1 297 822**	$ 1 088 274
Remuneration expense on options granted	**242 079**	209 548
Balance - end of year	**$ 1 539 901**	$ 1 297 822

25 . ACCUMULATED OTHER COMPREHENSIVE INCOME

	2007
Unrealized losses on foreign exchange contracts at the date of adoption of Section 3865, *Hedges* , net of income taxes in the amount of $43,095	**$ (86 828)**
Changes in other comprehensive income in the current period	**96 447**
Unrealized gains on foreign exchange contracts designated as cash flow hedges, net of income taxes of $4,390	**$ 9 619**

26 . STOCK-BASED COMPENSATION PLAN

According to a stock option agreement for certain employees and directors of the Corporation, the Board of Directors may, at its discretion, grant them options to purchase common shares of the Corporation at an exercise price established by the Board. Options generally vest between one and four years from the date of grant and must be exercised within a maximum of six years, except in the event of retirement, termination of employment or death. The value of each option is estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions :

	2007						
	Number of options						Total
	79 000	50 000	100 000	100 000	100 000	250 000	
Risk-free interest rate	**4.22%**	**4.22%**	**4.5%**	**4.62%**	**3.87%**	**4.23%**	**4.27%**
Dividend yield	**3.99%**	**3.99%**	**3.99%**	**3.99%**	**3.99%**	**3.99%**	**3.99%**
Expected volatility	**35%**	**35%**	**35%**	**35%**	**35%**	**35%**	**35%**
Expected term	**3 years**	**5 years**	**3 years**	**5 years**	**5 years**	**3 years**	**3 to 5 years**

	2006		
	Number of options		Total
	100 000	50 000	
Risk-free interest rate	3.88%	4.18%	4%
Dividend yield	1.53%	1.12%	1.39%
Expected volatility	40%	40%	40%
Expected term	1 year	4 years	1 to 4 years

The estimated fair value of the options granted in 2007 is $442,226 (2006-$55,969). This amount is amortized and charged to earnings as the rights to exercice are vested.

26 . STOCK-BASED COMPENSATION PLANS (Con't)

The remuneration expense in the amount of $242,078 (2006-$209,548) on options granted to employees and directors has been credited to contributed surplus.

	2007		2006	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance-beginning of year	**1 491 500**	**$ 1,60**	1 448 000	$ 1,61
Granted	**429 000**	**1,79**	150 000	1,68
Exercised	**(225 000)**	**1,00**	-	n/a
Expired	**(178 000)**	**2,00**	(106 500)	1,90
Balance-end of year	**1 517 500**	**$ 1,70**	1 491 500	$ 1,60
Exercisable at the end of the year	**1 004 667**	**$ 1,65**	1 065 917	$ 1,47

The following table summarizes certain information on stock options exercisable after January 1, 2008 :

2007			2006		
Exercice price	**Number**	**Weighted average years to maturity**	Exercice price	Number	Weighted average years to maturity
$ 1.35	**100 000**	**4.9 years**	$ 1.60	57,500	4.0 years
1.59	**100 000**	**4.6 years**	1.65	50,000	4.7 years
1.60	**38 333**	**3.0 years**	1.75	3,333	2.4 years
1.65	**37 500**	**3.7 years**	1.80	25,000	4.5 years
1.80	**25 000**	**3.5 years**	2.00	265,250	2.9 years
1.96	**25 000**	**2.2 years**	2.07	22,000	1.7 years
2.00	**70 000**	**2.9 years**	2.50	2,500	1.6 years
2.15	**117 000**	**2.9 years**	n/a	n/a	n/a
$1.35 to $2.15	**512 833**	**3.7 years**	$1.60 to $2.50	425,583	3.3 years

27 . RELATED PARTY TRANSACTIONS

The Corporation recorded an amount of $59,600 (2006-$48,856) for services rendered by an entity whose officer is a director of the Corporation. The transactions occurred in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

28 . CONTINGENCIES AND COMMITMENTS

The Corporation concluded lease agreements for the rental of certain premises and entered into operating leases for rolling stock and equipment for a total of $6,928,616 (2006-$7,672,291). Future minimum lease payments under these operating leases, as at December 31, 2007, are as follows :

2008 - $1,611,908 2009 - $1,639,296 2010 - $1,660,341 2011 - $1,224,686 2012 - $789,727 2013 and thereafter - $2,658

29 . FINANCIAL INSTRUMENTS

Fair value of financial instruments

The carrying value of cash and cash equivalents, temporary investments, accounts receivable, long-term loans, accounts payable and long-term debt approximates their fair value due to their short term to maturity or associated rates that do not vary significantly from the market rates.

Credit risk

Cash and cash equivalents are held or issued by "high-credit quality" financial institutions. Therefore, the Corporation considers that the risk of non-performance of those instruments is negligeable.

29 . FINANCIAL INSTRUMENTS (Cont'd)

The Corporation provides credit to its customers in the normal course of business. It carries out credit checks on its customers on a continual basis and maintains provisions for contingent credit losses which, once they materialize, are consistent with management's forecasts. The Corporation does not normally require a guarantee.

For other debts, the Corporation continually assesses probable losses and sets up a provision for losses based on their estimated realizable value (see note 15).

The Corporation minimizes its credit risks by conducting its operations with a wide variety of customers in several industries.

Currency risk

The Corporation realizes approximately 58% (2006-58%) of its sales in foreign currencies and accordingly is exposed to market risks related to foreign exchange fluctuations. The Corporation uses derivative financial instruments such as forward foreign exchange contracts to reduce its currency risk exposure. Forward foreign exchange contracts are contracts under which the Corporation is obligated to sell U.S. dollars at a fixed rate.

2007 Maturity	**Type**	**Average exchange rate**	**Contractual amounts (in U.S. dollars)**
0 to 12 months	**Sale**	**0.9935**	**$ 6 000 000**

2006 Maturity	**Type**	**Average exchange rate**	**Contractual amounts (in U.S. dollars)**
0 to 12 months	Sale	1.1454	$ 6 200 000

The fair value of derivative financial instruments generally reflects the estimated amounts that the Corporation would pay or receive upon settlement of the contracts at year-end.

The fair value of the financial instruments is as follows :

	2007	2006
Unrealized gains (losses) on forward exchange contracts	**$ 14 009**	$ (129 923)

Gains and losses on financial instruments designated as cash flow hedges are recognized in the Corporation's results in the same period as the underlying transaction. Variances in the fair value of non-designated financial instruments are recognized immediately.

Gains and losses on financial instruments are recognized as follows in the financial statements :

	2007	2006
Gains on foreign exchange from financial instruments used in hedging	**$ 225 280**	$ 171 725
Gains (losses) on foreign currency exchange on U.S. dollar monetary accounts	**(1 152 121)**	179 119
Total gains (losses) on foreign currency exchange recognized as "Other Revenues and Expenses"	**(926 841)**	350 844
Gains (losses) on foreign currency exchange from derivitative financial instruments recognized as "Sales"	**410 964**	(28 900)
	$ (515 877)	$ 321 944

The Corporation does not hold or issue any derivative financial instruments for speculative or trading purposes. Derivative financial instruments are subject to normal credit ratings, financial controls, risk management as well as monitoring procedures.

29 . FINANCIAL INSTRUMENTS (Cont'd)

Interest rate risk

The Corporation's exposure to interest rate risk is as follows :

Cash CA$	Prime rate less 2.25%
Cash US$	Prime rate less 4.50%
Accounts receivable	Non-interest bearing
Long-term loan to United Arabic Emirates	Non-interest bearing and participating
Long-term loans to United States	Between 0% and 4.23% and non-participating
Accounts payable	Non-interest bearing
Short-term debt	Prime rate less 1.50%
Current liability related to assets held for sale	5.30%
Long-term debt	Prime rate plus 1.00% and fixed rate between 9.50% and 10.80%

30 . GOVERNMENT ASSISTANCE

During the year, the Corporation recorded research and development tax credits of $603,821 (2006-$116,925). These credits, of which $166,182 has not yet been assessed by the tax authorities, were accounted for as follows :

	2007	2006
Decrease in deferred development costs	**$ 452 767**	$ 116 925
Decrease in selling and administrative expenses	**151 054**	-
	$ 603 821	$ 116 925

31 . 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 the physically handicapped (adapted transport).

The accounting policies used for these reportable segments are consistent with those described in the summary of significant accounting policies.

The business sectors are detailed as follows :

	2007			2006		
	Accessibility	**Adapted Transport**	**Total**	Accessibility	Adapted Transport	Total
Sales	$ 48 907 992	$ 8 611 698	**$ 57 519 690**	$ 51 343 875	$ 8 954 450	$ 60 298 325
Operating earnings	1 871 450	177 538	**2 048 988**	2 787 134	309 851	3 096 985
Net earnings (losses)	(435 257)	111 330	**(323 927)**	1 650 203	254 053	1 904 256
Assets	35 865 568	2 839 112	**38 704 680**	36 865 201	3 395 493	40 260 694
Amortization	913 926	49 975	**963 901**	1 212 273	63 760	1 276 033
Additions to fixed assets	206 190	9 920	**216 110**	214 962	24 640	239 602

Information by geographic region is as follows :

	Sales		**Fixed assets, intangible assets and goodwill**	
	2007	2006	**2007**	2006
United States	**$ 30 912 313**	$ 31 559 398	**$ 448 627**	$ 458 630
Canada	**22 887 455**	24 406 793	**3 076 391**	6 457 246
Europe and others	**3 719 922**	4 332 134	**-**	-
	$ 57 519 690	$ 60 298 325	**$ 3 525 018**	$ 6 915 876

32 . SUBSEQUENT EVENT

On December 12, 2007, the Corporation accepted an offer for the purchase of the assets held for sale. Under the terms of the agreement, the Corporation would receive an amount of $4,900,000, net of commissions, generating a gain on disposal in the amount of $2,053,482 ($1,487,908 after-tax) that will be recognized when the sale is completed. This offer expires on April 4, 2008.

33 . COMPARATIVE FIGURES

Certain figures for the previous year have been reclassified to conform to the presentation adopted for the year ended December 31, 2007.