SAVARIA CORPORATION

Management's Report

For the Three and Twelve-Month Periods Ended December 31, 2010

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 and twelve-month periods ended December 31, 2010 in comparison with those for the corresponding periods of fiscal 2009. It also provides a comparison of the balance sheets as at December 31, 2010 and 2009. 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 for the period ended December 31, 2010. Unless otherwise indicated, all amounts are expressed in Canadian dollars.

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

This management's report was prepared as of March 29, 2011. 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. 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 non-GAAP measures such as EBITDA, EBITDA per share, working capital, current ratio, book value per share, cash and cash equivalents per share and total net debt to invested capital ratio for analysis purposes to measure its financial performance. EBITDA means earnings before interest, income taxes and amortization ("EBITDA") while EBITDA per share means EBITDA per average diluted number of common shares outstanding. A reconciliation between net earnings and EBITDA is provided in Section 9, *Summary of Quarterly Results*. Working capital is defined as the result of current assets less current liabilities while the current ratio is defined as the result of current assets divided by current liabilities. Book value per share corresponds to the result of shareholders' equity divided by the number of shares outstanding at the end of each quarter and cash and cash equivalents per share correspond to the result of cash and cash equivalents divided by the number of shares outstanding at the end of each quarter.

Total net debt to invested capital ratio is the result of the total of long-term debt less the net result of cash and cash equivalents and bank loans ("numerator") divided by the total of shareholders' equity and the numerator.

Although management, investors and analysts use these measures to evaluate the Corporation's financial and operating performance, they have no standardized definition in accordance with GAAP and should not be regarded as an alternative to financial information prepared in accordance with GAAP. These measures may therefore not be comparable to similar measures reported by other companies.

4. Business Overview

Savaria Corporation’s operations are divided into two reportable segments: *Accessibility* and *Adapted Vehicles.* Business in the first segment is conducted by four of the Corporation’s subsidiaries. The subsidiary Savaria Concord Lifts Inc. (“Savaria Concord Lifts”) 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, whereas the subsidiaries Concord Elevator (London) Ltd (“Concord London”) and Savaria Lifts Ltd (“Savaria Lifts”) distribute and install products manufactured by Savaria Concord Lifts in addition to assembling certain components. The Chinese subsidiary Savaria (Huizhou) Mechanical Equipment Manufacturing co. Ltd (“Savaria Huizhou”) also assembles accessibility product components and finished products for the benefit of the Corporation’s subsidiaries and for the sale of products on the Chinese and European markets. 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 second segment is conducted by the subsidiary Van-Action (2005) Inc. (“Van-Action”) and, since August 3, 2010, as well by the newly acquired subsidiaries Freedom Motors Inc. (“Freedom”) and The Liberty Motor Co. Inc. (“Liberty”), which convert and adapt mini-vans, also for people with mobility problems. Considering the recent acquisitions, annualized revenues for the *Accessibility* segment are estimated at $55 million (“M”), whereas those in the *Adapted Vehicles* amount to $15 M, bringing aggregate revenues to approximately $70 M. Analyses in this report cover the two business segments unless expressly stated otherwise.

Headquartered in Laval, Quebec, Savaria has five other facilities, including one 220,000-square-foot plant in Brampton, Ontario and another covering 70,000 square feet in Ville St-Laurent, Quebec, as well as one 35,000-square-foot plant in Huizhou, China.

During fiscal 2010, Savaria’s revenues were recorded in the United States (42%), Canada (48%) and, to a lesser extent, outside North America (10%). The Corporation has some 420 employees and its shares are listed on the Toronto Stock Exchange under the symbol SIS.

5. Business Context

A Fast-Growing Market due to the Unprecedented Aging of the Population

Equipment designed for the accessibility market is 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.

The population is aging at an accelerated pace, as shown by a new study titled *An Aging World: 2008*, published by the U.S. Census Bureau in July 2009.

In 2008, the number of people aged 65 and over was estimated at 506 million worldwide, representing 7% of the world’s total population. Another 870,000 people worldwide turned 65 every month. Based on projections for ten years hence, this increase will reach 1.9 million people, for an annual net increase of approximately 23 million.

Consequently, the number of people requiring accessibility equipment will grow, for several reasons. First, the older population is growing and people's life expectancy increasing, with the result that some eleven countries now have an average life expectancy exceeding 80 years. Secondly, seniors are increasingly well-off and will hence have the means to adapt their own homes in order to remain there. Finally, the family structure and care of aging people are changing, increasingly requiring accessibility equipment to be installed in these people's homes and public buildings.

Furthermore, 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 annually will suffer from a disability, bringing their total to 35.4 million by 2030.

These fundamental changes will definitely have a major impact on the demand for accessibility products. 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.

As regards the North American competitive context, three main companies, all private entities or subsidiaries of large corporations, offer a similar product line to 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 due to 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. More than 1,000 outlets sell accessibility products in North America.

6. Vision, Mission and Strategy

Our Vision

Lead the North American market for personal mobility products with exceptional design, quality manufacturing and optimized distribution of the widest offering in the industry. Develop and maintain a client-driven culture with clients, end-users and employees. Strategically expand around the world in order to grow sales and optimize purchasing power.

Our Mission

We design, engineer, manufacture and market high-quality reliable and customized accessibility products and elevators that improve personal well-being and mobility. We aspire to always provide a business culture and environment based on client-driven principles, teamwork and mutual respect.

Our Strategy

Despite the slow recovery of the U.S. economy, the Corporation maintained home elevator sales and saw slight growth in accessibility products. In 2011, Savaria's strategy will include an emphasis on building market share in home accessibility while maintaining its competitive pricing in the marketplace. The initiatives include:

- increasing sales of home accessibility products across North America with more aggressive marketing including local area marketing programs supporting established Savaria dealers;
- sourcing new products and developing partnerships with new vendors around the world to provide a more comprehensive and complete line of accessibility and elevator products;
- increasing market share through closer dealer relationships, continued emphasis on quality in all areas of business and increased focus on customer service; and
- benefiting from the best quality-price ratios by purchasing our raw materials and products from the top suppliers, whether they be external suppliers, partners or a subsidiary of the group.

By implementing these strategies, we aim to maximize investor value and to earn the loyalty of our employees, clients and suppliers.

7. Fourth-Quarter and Fiscal 2010 Highlights

Business Acquisitions

On February 1, 2010, the Corporation acquired all the outstanding capital stock of Concord London, a retailer specializing in the installation and maintenance of elevators and platform lifts in Ontario.

On July 19, 2010, through its new subsidiary Savaria Lifts, the Corporation acquired certain assets of Concord Elevator (Alberta) Ltd, a retailer specializing in the installation and maintenance of elevators and platform lifts in Alberta.

On August 2, 2010, the Corporation acquired all the outstanding capital stock of Freedom and Liberty, both of which are located in Ontario and specialize in the conversion of mini-vans for people with mobility problems.

Sales Growth of 21.5% for the Quarter and 18.2% for the Fiscal Year

Sales grew by 21.5% to $17.4 M for the fourth quarter of 2010, and by 18.2% for the year to total $65.2 M, representing the highest annual sales in the Corporation's history. That compares with sales of $14.3 M and $55.2 M, respectively, for the fourth quarter and fiscal 2009. The addition of the operations of the subsidiaries acquired during the year represents $3.6 M in sales for the fourth quarter and $8.4 M for the year.

Operating Earnings of $1.2 Million for the Quarter and $4.3 Million for the Fiscal Year

Operating earnings for the fourth quarter of 2010 stood at $1.2 M, being the same amount as in the corresponding quarter of 2009. For fiscal 2010, operating earnings totalled $4.3 M, compared with $2.8 M in 2009, an increase of $1.5 M.

EBITDA

The Corporation generated EBITDA of $1.1 M during the fourth quarter of 2010, compared with $1.3 M in the corresponding quarter of 2009. For fiscal 2010, EBITDA totalled $5.3 M, up from $4.1 M in 2009, representing an increase of $1.2 M and the highest annual EBITDA in the Corporation's history.

8. Overview 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, percentages and exchange rates)	**2010**	2009	2008
USD/CAD exchange rate, end of year	**0.9946**	1.0510	1.2180
Average effective exchange rate [1]	**1.1018**	1.0725	1.0276
Sales	**$65,236**	$55,172	$55,508
Gross profit as a % of sales	***28.5%***	*26.7%*	*22.8%*
Selling and administrative expenses	**$12,982**	$11,143	$11,368
Selling and administrative expenses as a % of sales	***19.9%***	*20.2%*	*20.5%*
Operating earnings	**$4,348**	$2,755	$2,532
As a % of sales	***6.7%***	*5.0%*	*4.6%*
EBITDA [2]	**$5,331**	$4,121	$4,122
EBITDA per share - diluted	**$0.23**	$0.16	$0.15
Exchange (loss) gain	**$(256)**	$(393)	$1,792
Net earnings	**$2,474**	$2,258	$1,549
Net earnings per share – diluted	**$0.11**	$0.09	$0.06
Dividends declared per share	**$0.084**	$0.03	$0.063
Weighted average number of common shares outstanding – diluted	**22,869**	25,411	27,349
Total assets	**$47,960**	$39,888	$40,751
Long-term debt (including current portion)	**$13,392**	$10,697	$8,776
Total liabilities	**$25,321**	$19,099	$22,912
Shareholders' equity	**$22,639**	$20,789	$17,839

[1] Calculated considering foreign exchange contracts applied to the periods in question

[2] Reconciliation of EBITDA with net earnings provided in Section 9

The Corporation’s sales, which were stable in 2008 and 2009, grew by 18.2% in 2010. Of this growth, 15.1% is related to the acquisitions completed in 2010.

Gross profit rose significantly between 2010 and 2008 thanks to the measures taken to mitigate the impact of the economic context and the increase in purchases from China, which grew by 121% between 2010 and 2008 to $6.7 M.

Operating earnings also rose significantly between 2010 and 2008, to reach 6.7% as a percentage of sales, due primarily to the sales growth and improvement in gross profit.

In addition to the aforementioned factors, the change in the exchange gain (loss) and the change in the valuation of restructured notes (formerly ABCP investments) had a major impact on net earnings during the reporting period analyzed. The Corporation recorded an exchange gain of $1.8 M in 2008, whereas it incurred losses of $393,000 and $256,000 in 2009 and 2010, respectively. With regard to the change in the valuation of restructured notes, the Corporation incurred a charge of $1.4 M in 2008, whereas it benefited from an increase in value of $565,000 in 2009 and $90,000 in 2010. Additionally, a gain on a put option related to a loan at a concessional rate yielded a $348,000 gain in 2009, whereas it produced a $139,000 loss in 2010. The tax expense also had a major impact on net earnings due mostly to the fact that no future tax benefit was recognized on losses related to the change in the valuation of restructured notes in 2008, whereas in 2009 and 2010, no income tax expense was recognized on their increases in value. The effective tax rate therefore stood at 51% in 2008, 22% in 2009 and 28% in 2010.

A substantial issuer bid, which allowed the repurchase of 4.7 M shares in September 2009, had a considerable impact on the weighted average number of shares outstanding in 2010 and 2009 in comparison with 2008.

Total assets, which declined slightly in 2009 from 2008, rose considerably in 2010 as a result of the acquisitions completed during the year. Total liabilities decreased by $3.8 M in 2009 from 2008 due to the reversal of the $3.7 M unrealized loss on foreign exchange contracts. In 2010, total liabilities increased by $6.2 M due mainly to a $1.6 M growth in deferred revenues from the acquired subsidiaries and the recognition of notes payable related to such acquisitions, in the amount of $2.8 M.

Finally, shareholders’ equity grew from $17.8 M as at December 31, 2008 to $20.8 M as at December 31, 2009 due primarily to the share repurchases, offset by unrealized gains on foreign exchange contracts recorded in accumulated other comprehensive income. The increase in 2010 over 2009 is due mainly to the accounting of capital stock of $1.2 M to be issued in connection with an acquisition completed in 2010.

9. Summary of Quarterly Results

Selected financial information for the last eight quarters is presented in the following table. 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, 2010.

(in thousands, except per-share amounts, percentages and exchange rates – unaudited)	**2010**				2009			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
USD/CAD exchange rate, end of quarter	**0.9946**	1.0290	1.0646	1.0158	1.0510	1.0707	1.1630	1.2613
Average effective exchange rate [1]	**1.1017**	1.1270	1.0936	1.0849	1.0832	1.0664	1.0714	1.0690
Sales	**$17,372**	$17,681	$16,940	$13,243	$14,301	$14,592	$15,094	$11,186
Gross profit as a % of sales	***28.2%***	*28.6%*	*29.3%*	*27.7%*	*28.8%*	*25.9%*	*27.2%*	*24.3%*
Selling and administrative expenses	**$3,397**	$3,523	$3,221	$2,841	$2,746	$2,968	$2,769	$2,659
Selling and administrative expenses as a % of sales	***19.6%***	*19.9%*	*19%*	*21.5%*	*19.2%*	*20.3%*	*18.2%*	*23.8%*
Operating earnings (loss)	**$1,189**	$1,145	$1,434	$580	$1,153	$599	$1,140	$(137)
As a % of sales	***6.8%***	*6.5%*	*8.5%*	*4.4%*	*8.1%*	*4.1%*	*7.6%*	*(1.2)%*
EBITDA [2]	**$1,146**	$1,388	$2,156	$641	$1,302	$413	$1,309	$1,097
EBITDA per share – diluted	**$0.05**	$0.06	$0.10	$0.03	$0.06	$0.02	$0.05	$0.04
Exchange (loss) gain	**$(302)**	$(107)	$339	$(186)	$(77)	$(471)	$89	$66
Net earnings	**$515**	$526	$1,254	$179	$816	$224	$663	$555
Net earnings per share – diluted	**$0.02**	$0.02	$0.06	$0.01	$0.04	$0.01	$0.03	$0.02
Dividends declared per share	**-**	-	-	$0.084	-	-	-	$0.030
Weighted average number of common shares outstanding – diluted	**23,444**	23,319	22,483	22,143	22,183	26,097	26,938	27,279

[1] Calculated considering foreign exchange contracts applied to the periods in question

[2] Reconciliation of EBITDA with net earnings provided in the following table

Sales for the third and fourth quarter of 2010 were up over the corresponding quarters of 2009 due mainly to the addition of the sales of the subsidiaries acquired during 2010, specifically Concord London, Savaria Lifts, Freedom and Liberty. Sales for the third quarter of 2010 represented an all-time high for the Corporation, whereas sales for the first quarter of 2009 had been adversely affected by the slowdown in the U.S. real estate market and can also be explained by the fact that the first quarter is generally weaker than the other quarters of the year.

Although selling and administrative expenses increased in dollars during 2010 as result of the year's acquisitions, they remained stable as a percentage of sales, in both 2009 and 2010, at an average of 20%.

The following section provides a detailed analysis of operating results for the fourth quarter of 2010 in comparison with the same quarter of 2009, and of year-to-date results for fiscal 2010 in comparison with the previous year. The detailed analysis of prior quarters is provided in the interim reports for fiscal 2010 and 2009, available on SEDAR's website at www.sedar.com.

Reconciliation of EBITDA with Net Earnings

As mentioned in Section 3, although EBITDA is not recognized according to GAAP, it is used by management, investors and analysts to assess the Corporation's financial and operating performance.

A reconciliation between net earnings, calculated in accordance with GAAP, and EBITDA, is provided in the table below.

(in thousands of dollars – unaudited)	**2010**					2009				
	Total	**Q 4**	Q 3	Q 2	Q 1	Total	Q 4	Q 3	Q 2	Q 1
Net earnings	**$2,474**	**$515**	$526	$1,254	$179	$2,258	$816	$224	$663	$555
Plus:										
Interest on long-term debt	**532**	**162**	192	88	90	319	97	70	75	77
Interest expense and banking fees	**149**	**37**	45	27	40	120	21	29	39	31
Income taxes	**975**	**122**	244	492	117	644	165	(117)	331	265
Amortization of fixed assets	**478**	**110**	140	117	111	395	109	104	90	92
Amortization of intangible assets	**775**	**205**	252	185	133	439	113	108	111	107
Less:										
Interest income and dividends	**52**	**5**	11	7	29	54	19	5	-	30
EBITDA	**$5,331**	**$1,146**	$1,388	$2,156	$641	$4,121	$1,302	$413	$1,309	$1,097

10. Operating Results

Certain data on results for the fourth quarter (three months) and the fiscal year ended December 31, 2010 (twelve months) are presented in the following tables.

Hedge Accounting

In conformity with the hedging policy adopted by the Board of Directors, the Corporation uses foreign exchange contracts to reduce the risks related to currency fluctuations. It applies hedge accounting, which allows the recognition of gains, losses, revenues and expenses from derivative financial instruments in the same period as those related to the hedged item. Foreign exchange contracts are recognized at their fair value on the balance sheet according to their maturity date. Unrealized gains and losses not recognized as net earnings are recorded in *Accumulated other comprehensive income*.

As at December 31, 2010, the Corporation held foreign exchange contracts totalling US$2.3 M for a hedging period extending until May 31, 2011, at an average exchange rate of 1.0432. At that date, the unrealized gain on these foreign exchange contracts amounted to $105,000 and was recorded in *Accumulated other comprehensive income*. A $2.8 M gain before taxes from the sale of foreign exchange contracts before maturity is also recorded in *Accumulated other comprehensive income* and will be reversed to net earnings during the period extending until June 2012, being the hedging period of such contracts.

Gross Profit

(in thousands of dollars, except percentages and exchange rates)	3 Months (Unaudited)			12 Months		
	2010	2009	% Change	**2010**	2009	% Change
Average effective exchange rate [1]	**1.1017**	1.0832	1.7%	**1.1018**	1.0725	2.7%
Sales	**$17,372**	$14,301	21.5%	**$65,236**	$55,172	18.2%
Cost of goods sold	**$12,471**	$10,181	22.5%	**$46,653**	$40,441	15.4%
Gross profit	**$4,901**	$4,120	19.0%	**$18,583**	$14,731	26.1%
As a % of sales	***28.2%***	*28.8%*	*n/a*	***28.5%***	*26.7%*	*n/a*

[1] Calculated considering foreign exchange contracts applied to the periods in question

Sales for the fourth quarter of 2010 were up by $3.1 M or 21.5% over the sales recorded for the fourth quarter of 2009. The contribution of the operations of the subsidiaries acquired in 2010 accounted for $3.6 M or 25.2% of the sales growth on a consolidated basis. Sales in the *Adapted Vehicles* segment increased $933,000 or 26.8%, whereas the *Accessibility* segment's sales grew by approximately 19.8% rising from $10.8 M in the fourth quarter of 2009 to $13 M in the fourth quarter of 2010. Without the addition of the operations of the subsidiaries acquired during the year, the *Adapted Vehicles* segment would have sustained a sales decrease of 27.5% or $958,000, whereas the *Accessibility* segment would have benefited from a sales increase of 4% or $431,000. The number of units delivered by the *Accessibility* segment was up by 36% for elevators and down by 1% for accessibility products. For their part, the Chinese subsidiary's sales were down by $103,000 or 16% over its sales for the fourth quarter of 2009.

For the 2010 fiscal year, sales grew by $10.1 M, or 18.2%, over the twelve-month period of 2009. The contribution of the operations of the subsidiaries acquired in 2010 accounted for $8.4 M or 15.1% of the sales growth on a consolidated basis. Sales in the *Adapted Vehicles* segment were up by 19.9% or $2.4 M, whereas those in the *Accessibility* segment were up by $7.7 M, which works out to a 17.8% sales growth in this segment over 2009. Without the addition of the operations of the subsidiaries acquired during the year, the *Adapted Vehicles* segment would have sustained a sales decrease of 7.5% or $896,000, whereas the *Accessibility* segment would have benefited from a sales increase of 6% or $2.6 M. The number of units delivered by the *Accessibility* segment was up by 2% for both elevators and accessibility products over the twelve-month period of 2009.

The proportion of sales from the United States on total sales declined as a percentage in the fourth quarter of 2010 from the same period of 2009, from 41.7% to 38.6%. Conversely, in dollars, U.S. sales increased by $732,000, from $6 M to $6.7 M. Canadian sales also rose, from $6.2 M or 43.6% of sales in 2009, to $8.8 M or 50.7% of sales in 2010. The contribution of the operations of the subsidiaries acquired in 2010 lowered the proportion of U.S. sales by 7.4% and raised the proportion of Canadian sales by 10.2% in 2010. The proportion of sales from outside North America decreased from $2.1 M to $1.9 M, accounting for 14.7% of sales in 2009 and 10.7% of sales in 2010.

For the fiscal year, the proportion of sales from the United States on total sales declined as a percentage in 2010 from 2009, from 45.9% to 42.3%. Conversely, in dollars, U.S. sales increased by $2.3 M, from $25.3 M to $27.6 M. Canadian sales also rose, from $24 M or 43.5% of sales in 2009 to $31.2 M or 47.8% of sales in 2010. The contribution of the operations of the subsidiaries acquired in 2010 lowered the proportion of U.S. sales by 4.8% and raised the proportion of Canadian sales by 6.3% in 2010. The proportion of sales from outside North America went from $5.8 M or 10.6% of sales in 2009 to $6.5 M or 9.9% of sales in 2010.

Gross profit grew by $781,000 for the fourth quarter of 2010 and by $3.9 M for fiscal 2010 over the same periods of 2009. The sales growth allowed for a better absorption of fixed costs in 2010. In addition, the measures taken to mitigate the effects of the economic slowdown and the increase in purchases in China yielded a reduction in costs and an improvement in productivity. Purchases from the subsidiary Savaria Huizhou and other suppliers located in China were up by approximately 31.3% for fiscal 2010 over fiscal 2009. These various measures enabled the Corporation to raise its gross margin from 26.7% for fiscal 2009 to 28.5% for fiscal 2010.

Operating Earnings

(in thousands of dollars, except percentages)	3 Months (Unaudited)			12 Months		
	2010	2009	% Change	**2010**	2009	% Change
Selling and administrative expenses	**$3,397**	$2,746	23.7%	**$12,982**	$11,143	16.5%
As a % of sales	***19.6%***	*19.2%*	*n/a*	***19.9%***	*20.2%*	*n/a*
Operating earnings	**$1,189**	$1,152	3.2%	**$4,348**	$2,755	57.8%
As a % of sales	***6.8%***	*8.1%*	*n/a*	***6.7%***	*5.0%*	*n/a*

Selling and administrative expenses increased by $651,000 or 23.7% for the fourth quarter of 2010 over the same quarter of 2009, whereas they increased by $1.8 M or 16.5% for the full fiscal year. These increases are due primarily to the addition of the expenses of the new subsidiaries acquired in 2010. Without the selling and administrative expenses of the new subsidiaries, such expenses would have decreased by $447,000 for the fourth quarter and by $788,000 for the fiscal year.

Operating earnings rose to $1.2 M for the fourth quarter of 2010, up by $37,000 over the fourth quarter of 2009. This slight improvement is attributable to the growth in gross profit ($781,000), less the increases in selling and administrative expenses ($651,000) and in amortization expenses ($93,000). Amortization expenses were up in 2010 due to the addition of certain amortizable assets recognized upon the year's acquisitions. For fiscal 2010, operating earnings grew by $1.5 M, from $2.8 M in 2009 to $4.3 M in 2010. This improvement is attributable mainly to the growth in gross profit ($3.9 M), less the increases in selling and administrative expenses ($1.8 M) and in amortization expenses ($419,000).

Net Earnings

(in thousands of dollars, except percentages)	3 Months (Unaudited)			12 Months		
	2010	2009	% Change	**2010**	2009	% Change
Other (expenses) revenues	**$(552)**	$(171)	223%	**$(898)**	$147	711%
Earnings before income taxes	**$637**	$981	(35.1)%	**$3,449**	$2,902	18.8%
Income taxes	**$122**	$165	(26.1)%	**$975**	$644	51.4%
Net earnings	**$515**	$816	(36.9)%	**$2,474**	$2,258	9.6%
EBITDA	**$1,146**	$1,302	(12)%	**$5,331**	$4,121	29.4%

Other revenues and expenses posted a $381,000 unfavourable change in the fourth quarter of 2010 compared with the corresponding quarter of 2009, due primarily to the $225,000 increase in exchange losses, the $69,000 unfavourable change in the fair value of restructured notes and interest on long-term debt of $65,000. For fiscal 2010, other revenues and expenses posted a $1 M unfavourable change compared with the twelve-month period of 2009, due primarily to the $488,000 unfavourable change in the put option related to restructured notes, the fair value of restructured notes of $475,000, and interest on long-term debt of $212,000, offset by a $137,000 favourable change in exchange losses. Of the $212,000 increase in interest on long-term debt, $143,000 came from the recognition of interest on notes payable related to the 2010 acquisitions.

The effective tax rate for the fourth quarter of 2010 stood at 19.2%, compared with the 29.1% combined corporate rate and the 16.8% rate for the fourth quarter of 2009. For fiscal 2010, the effective tax rate stood at 28.3%, compared with the 22.2% rate for the twelve-month period of 2009. The 2009 effective tax rate had been affected by the gain in value of the restructured notes for which no tax expense had been recognized as the tax benefit had not been recognized upon the loss in value.

11. Financial Position

Balance Sheet Changes

The following table shows the key changes in the consolidated balance sheets between December 31, 2010 and December 31, 2009, along with the principal explanations of such changes:

(in thousands of dollars, except percentages and explanations of changes)	December 31,		Change	Explanation of Changes
	2010	2009		
Current assets				
Accounts receivable	**$10,444**	$7,455	40.1%	Addition of accounts receivable of the subsidiaries acquired in 2010 ($+2.4 M), increase in trade receivables (+$779 K) and decrease in exchange rate used to translate U.S. dollar denominated accounts receivable (-$263 K), increases in commodity taxes receivable (+$77 K) and other receivables (+$45 K).
No. of days in receivables	**53**	51	3.9%	
Inventories	**$14,536**	$12,600	15.4%	Addition of inventories of the subsidiaries acquired in 2010 (+$2.2 M), reduction in inventories at the Brampton plant (-$151 K).
Long-term assets				
Long-term investments	**$1,499**	$5,758	(74.0)%	Cashing of investments following the 2010 acquisitions (-$4.1 M).
Intangible assets	**$3,026**	$1,390	118%	Maintenance contracts and other intangible assets stemming from the 2010 acquisitions (+$1.8 M), acquisition of a manufacturing and distribution licence (+$322 K), capitalized development costs (+$234 K), software (+$52 K) and amortization (-$775 K).

(in thousands of dollars, except percentages and explanations of changes)	December 31, 2010	December 31, 2009	Change	Explanation of Changes
Goodwill	**$4,974**	$506	883%	Addition of goodwill related to the 2010 acquisitions.
Current liabilities				
Accounts payable	**$6,687**	$6,249	7%	Addition of accounts payable of the subsidiaries acquired in 2010 (+$877 K) and reduction in the Chinese subsidiary's accounts payable (-$395 K).
Deferred revenues	**$2,043**	$415	392%	Addition of deferred revenues of the subsidiaries acquired in 2010 (+$1 M), mostly related to maintenance contracts, and increase in deferred revenues of the subsidiary Van-Action (+$563 K).
Current portion of long-term debt	**$3,328**	$1,844	80.5%	See explanations under the heading "Long-term debt".
Working capital	**$19,413**	$17,789	9.1%	-
Current ratio	**2.34**	2.81	(16.7)%	-
Long-term liabilities				
Long-term debt	**$10,063**	$8,852	13.7%	New debt to finance the 2010 acquisitions (+$2 M), addition of notes payable related to the business acquisitions ($1.1 M current and $1.7 M long-term), normal repayment of debt (-$2.2 M) and other minor changes.

(in thousands of dollars, except percentages and explanations of changes)	December 31,		Change	Explanation of Changes
	2010	2009		
Shareholders' equity	**$22,639**	$20,789	8.9%	Dividends (-$1.9 M), earnings for the year (+$2.5 M) and capital stock to be issued in connection with the acquisition of Concord London (+$1.2 M).

As at December 31, 2010, Savaria benefited from a sound financial position, with total assets of $48 M, compared with $39.9 M as at December 31, 2009, and total liabilities of $25.3 M, compared with $19.1 M as at December 31, 2009.

Available Sources of Financing

(in thousands of dollars)	December 31,	
	2010	2009
Credit facilities:		
Authorized	**$3,500**	$3,500
Loans	**(1,990)**	(1,080)
Unused credit	**1,510**	2,420
Cash and cash equivalents	**6,041**	4,823
Total	**$7,551**	$7,243

As shown above, the Corporation had total available funds of $7.6 M as at December 31, 2010, providing it with the flexibility to meet its potential obligations in the near term and to take advantage of promising investment opportunities.

In 2009, the Corporation entered into a $4 M financing agreement, of which one of the conditions stipulates that the Corporation must hold a minimum of 50% of the loan balance in cash. This amount, which stands at $1.5 M as at December 31, 2010, is presented as *Cash and cash equivalents reserved*, with a current portion of $400,000 and a long-term portion of $1.1 M, and is not included in available sources of financing in the above table.

During the third quarter, the Corporation entered into a long-term financing agreement of $2 M to finance the Freedom and Liberty acquisitions. The agreement provides for the repayment over 60 months by way of equal monthly payments of $33,000 plus interest at prime rate plus 1%. All of the assets of the subsidiaries Savaria Concord Lifts, Freedom and Liberty have been given as security.

Furthermore, the Corporation can incur potential risks of loss on foreign exchange contracts up to a maximum of $2.3 M over a maximum hedging period of 36 months. This amount is the maximum amount of unrealized losses that foreign exchange contracts held by the Corporation can represent at one time; beyond that amount, the bank could realize the collateralized security to hedge such risk. It also has an available line of treasury of $600,000 to cover potential losses in case it decides to convert the variable interest rate on its $6 M long-term debt to a fixed rate.

As at December 31, 2010, the total net to invested capital ratio stood at 20.5% (16% as at December 31, 2009), providing the Corporation with significant financial leverage to finance any internal development project or strategic acquisition.

Other Data and Ratios

(in thousands of dollars, except per-share amounts – unaudited)	December 31,		Change
	2010	2009	
Book value per share	**$ 1.03**	$ 0.94	9.6%
Cash and cash equivalents per share	**$ 0.27**	$ 0.22	22.7%
Market capitalization	**$34,788**	$18,834	84.7%

The book value per share and cash and cash equivalents per share posted an increase as at December 31, 2010 over December 31, 2009. Market capitalization grew by 84.7% due to the fact that the share price rose sharply during the period between December 31, 2009 and December 31, 2010, from $0.85 to $1.58.

12. Cash Flows

The following table presents certain cash flow data for the fourth quarter (three months) and the full fiscal year (twelve months).

(in thousands of dollars)	3 Months (Unaudited)		12 Months	
	2010	2009	**2010**	2009
Cash flows from operating activities	**$161**	$45	**$3,318**	$3,922
Cash flows (used in) from investing activities	**$(150)**	$40	**$(695)**	$(1,328)
Cash flows from (used in) financing activities	**$1,172**	$(254)	**$(1,405)**	$(2,973)

The Corporation's cash flows from operating activities increased by $116,000 for the fourth quarter and decreased by $604,000 for fiscal 2010 from the corresponding periods of 2009. The variance for the quarter is due primarily to the recognition of a $537,000 gain related in foreign exchange contracts cashed in advance and a $377,000 decrease in earnings before amortization and future income taxes, offset by a favourable change in non-cash working capital items of $903,000.

For the fiscal year, the variance was also attributable to the recognition of a non-cash gain of $1.5 M related to foreign exchange contracts cashed in advance and an unfavourable change in non-cash working capital items of $1.4 M. These unfavourable variations were offset by the following favourable items: a $753,000 favourable change in earnings before amortization and future income taxes, an $864,000 favourable change in the fair value of restructured notes and a put option related to such notes and a $342,000 favourable change in unrealized exchange gains on long-term monetary items.

Cash flows used in investing activities were $190,000 higher in the fourth quarter of 2010 due primarily to a $95,000 increase in capital expenditures. For the fiscal year, cash flows used in investing activities were $633,000 lower in 2010 due primarily to an increase in the change in long-term investments ($3.2 M) and in cash and cash equivalents reserved ($1.5 M) offset by an unfavourable change in the amount disbursed for business acquisitions ($4.1 M).

Cash flows from financing activities were up by $918,000 in the fourth quarter of 2010 over the same quarter of 2009 due primarily to the $1.6 M change in bank loans, offset by a $239,000 increase in share repurchases for cancellation. For the twelve-month period, cash flows used in financing activities were down by $1.6 M due to a $4.3 M reduction in share repurchases for cancellation and a $3.4 M reduction in repayment of long-term debt; these favourable changes were offset by the $5.7 M decrease in the contracting of new long-term debt and the $1 M increase in dividends paid.

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. The main estimates include the measurement of the fair value of financial instruments, including derivatives and investments in restructured notes, stock-based compensation expense, the amortization of fixed assets and intangible assets, goodwill, future income tax balances, the allowance for doubtful accounts, the inventory obsolescence provision and warranty provision as well as the measurement of intangible assets recorded as part of the business acquisitions.

These estimates are based on management's knowledge of current events and the measures the Corporation could take in the future. Actual results may 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. 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 years 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.

Intangible Assets

Intangible assets consist of trademarks, client lists, distribution licenses, maintenance contracts, leases at favourable rates, customer orders, computer software and capitalized development costs. Trademarks are not amortized since they have an indefinite life span; instead, the Corporation assesses periodically whether a provision for impairment in the value of trademarks should be recorded against earnings. This is accomplished by determining whether projected discounted future cash flows exceed the net book value of the intangible asset. Trademarks are tested for impairment annually on December 31, and when an event or circumstance occurs that could potentially result in a decline in value. Other elements of intangible assets are amortized using the straight-line method over their projected useful lives.

Long-Term Investments in Restructured Notes

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

Stock-Based Compensation

The Corporation records stock-based compensation to its employees, consultants and directors at fair value. According to the fair value method, an employee compensation expense is charged to selling and administrative 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.

14. New Accounting Policies

A) 2010

Multiple Deliverable Revenue Arrangements:

On December 24, 2009, the Canadian Institute of Chartered Accountants' ("CICA") Emerging Issues Committee issued Abstract No. 175 ("EIC-175"). EIC-175, *Multiple Deliverable Revenue Arrangements*, amends the guidance contained in EIC-142, *Revenue Arrangements with Multiple Deliverables*, and establishes additional requirements regarding revenue recognition related to multiple deliverables as well as supplementary disclosures. EIC-175 is applicable prospectively, with retrospective adoption permitted, to revenue arrangements with multiple deliverables entered into or materially modified in the first annual period beginning on or after January 1, 2011; however early adoption is permitted.

This new Abstract was early adopted by the Corporation at the time of acquisition of one of its subsidiaries in 2010 which enters into arrangements with multiple deliverables.

B) Future Accounting Changes

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

In 2009, the CICA issued three new accounting standards: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling Interests*. These new standards will apply to the Corporation's financial statements for the fiscal year beginning on January 1, 2011. The Corporation does not expect that these three new standards will have any material impact on its consolidated financial statements.

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

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

International Financial Reporting Standards ("IFRS")

In February 2008, Canada's Accounting Standards Board ("AcSB") confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be superseded by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. IFRS use a conceptual framework similar to Canadian GAAP, but involve major differences in regard to recognition, measurement, presentation and disclosure.

For the Corporation, the conversion to IFRS will be required for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The comparative figures of these financial statements must also be presented in accordance with IFRS.

Executive officers of the Finance Department having the requisite qualifications and experience have been assigned to the project and have received the appropriate training. The Corporation's external auditors are informed of and consulted about the choices made. The Audit Committee is kept up-to-date on the advancement of the work. The Corporation has drawn up a three-phase conversion plan for its consolidated financial statements:

Phase 1 – Detailed Evaluation

During this phase, the Corporation performs a detailed evaluation of the differences between IFRS and the Corporation's GAAP as well as an evaluation of key areas that may be affected by the transition, such as the Corporation's business practices, information systems, internal control over financial reporting and disclosure. This phase also involves an analysis of the various types of accounting policies and a selection of the elective exemptions available to the Corporation at the transition date. This phase was completed in the fourth quarter of 2010.

Phase 2 – Design

In this phase, the Corporation designs solutions to address the differences identified in Phase 1. Changes required to be made to existing accounting policies, business processes and internal controls are identified in order to perform the conversion to IFRS. The training and communication needs of the various stakeholders are identified. This phase began in August 2010 and should be completed by April 30, 2011.

Phase 3 – Implementation

The objective of this final phase is to allow continued IFRS reporting as of the first quarter of 2011. During this phase, the changes identified in Phase 2 are implemented. This phase, which began in September 2010, is about 50% completed and should be finalized by May 31, 2011.

The consequences of the transition to IFRS on the principal aspects of the Corporation are as follows:

Aspect 1 – Financial Reporting

The Phase 1 detailed evaluation identified the following major differences between the Corporation's existing accounting policies and those to be applied in the preparation of financial statements in accordance with IFRS.

First-Time Adoption of IFRS (IFRS 1)

IFRS 1 provides for a number of elective exemptions concerning the retrospective application of certain IFRS requirements, as well as mandatory exceptions prohibiting the retrospective application of certain standards.

Savaria will apply the following elective exemptions:

- Business combinations: it will not restate the accounting of business combinations prior to January 1, 2010.
- Stock-based transactions: it will not restate according to IFRS 2 the options issued before 2002 and those issued after 2002 of which the exercise rights are entirely vested as at January 1, 2010.

A final decision has been made on the application of the elective exemption concerning the fair value or revaluation as deemed cost. This exemption will not be applied as the net carrying amounts under GAAP correspond to costs under IAS 16 applied retrospectively.

The remaining elective exemptions and mandatory exemptions are not expected to apply to Savaria, except for the mandatory exemption concerning estimates. Pursuant to this exemption, estimates at the transition date must reflect the conditions prevailing at that time and may not reflect the conditions occurring subsequent to the transition date.

Share-Based Payment (IFRS 2)

Graded Vesting – For stock options that vest in instalments, IFRS require the use of the graded vesting method whereby each instalment must be treated as a separate grant with its own separate fair value. However, GAAP permit the use of a straight-line method which considers the individual grants to be a single award, thus equally spreading the expense over the Corporation's total grant period.

The use of the graded vesting model as required by IFRS leads to a transition adjustment that increases contributed surplus and decreases retained earnings by $53,000 as at January 1, 2010.

Readers should note that this model will result in the recognition of increased expenses in the first years of a grant and lower expenses in the final residual years compared to the straight-line method currently used by the Corporation.

Business Combinations (IFRS 3)

The Corporation will adopt IFRS 3, which is largely harmonized with CICA Handbook Section 1582, *Business Combinations*, scheduled to come into effect on January 1, 2011. Although the Corporation expects to apply the

IFRS 1 elective exemption not to restate business combinations prior to January 1, 2010, IFRS 3 will have an impact on the Corporation's financial statements as at December 31, 2010 as it will have to be applied for the recognition of the subsidiaries acquired in 2010, specifically Concord London, Savaria Lifts, Freedom and Liberty. Based on the analysis conducted in regard to these four acquisitions, the following differences have been identified:

- Acquisition fees, which amount to $292,000, cannot be included in the investment acquisition cost, but will have to be recognized as an expense in the consolidated statement of earnings.
- The fair value of issued shareholders' equity will have to be determined at the acquisition date rather than based on the share price over a reasonable period before and after the date on which the conditions of the acquisition are agreed and announced. A $3,000 addition to issued capital stock has been calculated.
- The contingent consideration will have to be recognized at fair value in the purchase price allocation rather than being recognized when the contingency can be resolved beyond a reasonable doubt and the contingent consideration can be reasonably estimated. The impact of this variance is a $633,000 reduction in capital stock to be issued.
- As the criteria to record certain provisions related to a plan to abandon an activity of an acquired business are different under IFRS, a reduction in the current liabilities of $188,000 has been identified.
- Under GAAP, negative goodwill must be reversed on a pro rata basis against long-term assets, whereas a gain is to be recognized in earnings under IFRS. The following variances have thus been identified:

	DT (CT)
Fixed assets	$117,000
Intangible assets	$212,000
Other revenues	$(398,000)

- Based on the different variances identified above, future income tax assets will be reduced by $84,000 and goodwill, by $956,000.

Presentation of Financial Statements (IAS 1)

A number of financial statement presentation differences exist between IFRS and GAAP, such as the classification of the statement of earnings by nature or function and the classification of deferred tax assets and liabilities as non-current items. The Corporation will address these presentation differences in its draft IFRS financial statements, which it started to prepare in the third quarter and will complete by May 31, 2011.

Income Taxes (IAS 12)

Presentation of Deferred Income Taxes – Under GAAP, an entity is required to present both current and long-term future income taxes on its balance sheet. Under IFRS, an entity must present them entirely as long-term. Accordingly, the Corporation will reclassify approximately $602,000 of current income tax liabilities as long-term items as at January 1, 2010.

Other

A number of other areas of IFRS, of which the key areas are described below, will also affect Savaria, although to a lesser extent. In fact, other differences between the Corporation's current accounting policies and IFRS have been identified, and there are various choices of accounting policies under IFRS. However, these are not expected to have a material impact on Savaria's financial statements.

- Impairment of Assets (IAS 36)

GAAP impairment testing of amortizable assets involves two steps, the first of which compares the carrying values of the long-lived assets or group of assets with undiscounted future cash flows to determine whether impairment exists. If the carrying value of the assets or group of assets exceeds the amount recoverable on an undiscounted basis, then the cash flows are discounted to calculate the amount of the impairment and the carrying values are written down to estimated fair value. IAS 36 uses a one-step approach for both testing and the measurement of impairment, with the carrying values of the cash generating units ("CGUs") compared directly with the greater of fair value less costs to sell and value in use ("recoverable amount").

Under GAAP, an indefinite-life intangible asset is always tested for impairment as an individual asset. Under IFRS, indefinite-life intangible assets that do not generate independent cash flows, such as Savaria's trademarks, are tested for impairment at the level of the CGUs.

Under GAAP, goodwill is tested for impairment by comparing the carrying amount of the reporting unit to which it is attached to the fair value of the reporting unit. If the fair value is less than the carrying amount of the reporting unit, then an impairment loss is calculated. Under GAAP, the impairment loss is measured as the difference between the carrying amount of the goodwill and its implied fair value. Under IFRS, goodwill is allocated to the Corporation's CGUs and is always tested for impairment at the level of the CGUs. An impairment loss is recognized if a CGU's carrying value exceeds its recoverable amount.

During the second quarter, the Corporation analyzed its operations in order to determine the CGUs to be used for the purpose of impairment testing. During the third quarter, models were developed to be used for the impairment testing that will have to be performed at the transition date.

- Intangible Assets (IAS 38)

Under GAAP, intangible assets must be recorded at their acquisition costs. Under IFRS, an entity may choose between using the cost model (identical to GAAP) or the revaluation model for subsequent measurements. We will continue to use the cost model. We do not expect this standard to have a material impact on our consolidated financial statements.

- Financial Instruments: Recognition and Measurement (IAS 39)

Under GAAP, the use of the critical items match method is permitted for assessing and measuring the effectiveness of a hedging relationship if certain conditions are met. Under IFRS, this method is not permitted. Ineffectiveness must be measured each period throughout the life of the hedging relationship. Based on our current situation, we do not expect this standard to have a material impact on our consolidated financial statements.

The following table summarizes the total balance sheet impact of variances between GAAP and IFRS that have been identified to date. These numbers are likely to change as our analysis progresses.

Summary of IFRS Adjustments as at January 1, 2010

Adjustments Related to IFRS DT (CT)	Deferred Tax Assets - CT	Deferred Tax Assets - LT	Contributed Surplus	Retained Earnings
IFRS 2 – Share-Based Payment			$(53,000)	$53,000
IAS 12 – Income Taxes	$(602,000)	$602,000		
Total	$(602,000)	$602,000	$(53,000)	$53,000

Aspect 2 – Information Systems

The Corporation does not expect the changeover to IFRS to entail material changes in the information systems infrastructure or existing general ledger accounting structures. Rather, the impact will be at the level of the need to develop several new reports or make the necessary changes to existing reports in order to compile certain new information, such as the information needed to track IFRS adjustments for the 2010 comparative fiscal year, as well as increased disclosures by way of notes.

Aspect 3 – Internal Control over Financial Reporting

The Corporation's transaction-level controls will not be affected by the transition to IFRS in any material respect. As this transition mainly affects the presentation of its financial statements and the disclosures therein, changes will have to be made to the controls governing the presentation of financial reporting, but the impact should be minor.

Similarly, minor changes were required to disclosure controls and procedures in order to ensure that the necessary information concerning the evolution of the transition to IFRS is adequately disclosed on a timely basis.

Aspect 4 – Financial Reporting Expertise

Members of the IFRS convergence team have participated in training seminars with the Ordre des Comptables Agréés and the Corporation's external auditors. However, the IASB currently has several review projects under way which may significantly affect various standards. Hence, the convergence team will ensure that its analysis is up-to-date on the latest versions by actively monitoring IASB revision releases, by obtaining publications provided by the CICA and by engaging in discussions with its external auditors.

Training of the employees outside the convergence team was performed in the fourth quarter of 2010; it affected few employees and was of a minor scope.

Finally, members of the Audit Committee and Board of Directors are being informed of the material changes made to the Corporation's financial statements as they are progressively identified. An Audit Committee member has been appointed to assist the convergence team in selecting the new IFRS accounting policies.

Aspect 5 – Business Activities

As the Corporation is currently evaluated based on its EBITDA, financial statement readers are cautioned that divergences between GAAP and IFRS could lead to different calculations of EBITDA under these two distinct standards, although the Corporation does not expect there to be material differences.

The Corporation will continue to evaluate any future use of financial information for the purpose of establishing key performance indicators and measures such as covenants and financial ratios. It does not expect the transition to IFRS to have a material impact on these covenants.

General

Based on the work completed to date, Savaria can reasonably establish that the adoption of IFRS will have no material impact on its financial position and future earnings.

15. Internal Control 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, 2010 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.

Management has evaluated the effectiveness of internal control over financial reporting using the criteria defined in the integrated internal control framework of the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that evaluation, management as well as the Chief Executive Officer and the Chief Financial Officer concluded, as at December 31, 2010, that the Corporation's internal control over financial reporting was effective in that it provides reasonable assurance as to the reliability of the Corporation's financial reporting and the preparation of its financial statements for disclosure purposes in accordance with GAAP.

Changes to Internal Control over Financial Reporting

No changes in the Corporation's internal control over financial reporting occurred during fiscal 2010 that 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 $3,507,079 ($4,267,538 in 2009).

The following table details the Corporation's commitments for the coming years.

(in thousands of dollars)	**Total**	2011	2012	2013	2014	2015
Long-term debt obligations	**$14,030**	$3,603	$4,090	$4,023	$2,004	$310
Capital leases	**156**	38	38	37	28	15
Operating leases	**3,507**	1,923	1,463	106	15	-
Total contractual obligations	**$17,693**	$5,564	$5,591	$4,166	$2,047	$325

17. Off-Balance Sheet Arrangements

Other than the operating leases considered in the previous section, *Contractual Obligations*, Savaria did not enter into any off-balance sheet arrangements during fiscal 2010.

18. Related-Party Transactions

The Corporation recorded an amount of $58,151 ($49,842 in 2009) for services rendered by an entity 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

The Corporation periodically uses various financial instruments to manage the risk related to exchange rate fluctuations. It does not hold or issue derivative financial instruments for speculative or trading purposes. Derivative financial instruments are subject to standard credit conditions, financial controls, risk management and monitoring procedures.

Fair Value of Financial Instruments

(in thousands of dollars)	Held-for-Trading	Loans and Receivables and Other Liabilities	**Total**	**Fair Value**
Financial assets				
Cash and cash equivalents	$6,041	$-	**$6,041**	**$6,041**
Cash and cash equivalents reserved	1,500	-	**1,500**	**1,500**
Trade and other receivables	-	9786	**9,786**	**9,786**
Foreign exchange forward contracts	105	-	**105**	**105**
Long-term loans	-	413	**413**	**366**
Long-term investments in restructured notes	1,290	-	**1,290**	**1,290**
Put option	209	-	**209**	**209**
Total financial assets	$9,145	$10,199	**$19,344**	**$19,297**
Financial liabilities				
Bank loans	$-	$1,990	**$1,990**	**$1,990**
Accounts payable and accrued liabilities	-	6,654	**6,654**	**6,654**
Long-term debt	-	13,392	**13,392**	**13,369**
Total financial liabilities	$-	$22,036	**$22,036**	**$22,013**

Financial Instrument Related Risks

The analysis of financial instrument related risks is provided in the next section, *Risks and Uncertainties*.

20. Risks and Uncertainties

The Corporation is confident about its long-term future outlook. Nevertheless, the risks and uncertainties described below could have an impact on its ability to implement its strategic plan and to achieve its growth objectives. The following factors should be considered in assessing the Corporation's future outlook.

Financial Risk Factors

The Corporation is engaged in an industry exposed to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. In order to minimize the potential adverse effects on its financial performance, the Corporation uses derivative financial instruments to hedge certain risk exposures. Treasury is managed centrally to allow for the identification, evaluation and hedging of financial risks.

(a) Currency Risk

Currency risk corresponds to the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency.

The Corporation realizes approximately 52% (57% in 2009) of its sales in foreign currencies and accordingly is exposed to market risks related to foreign exchange fluctuations. Major exchange rate fluctuations could have a significant impact on its sales and consequently on its gross margin. The Corporation partially compensates for these risks by purchasing materials in U.S. dollars and using derivative financial instruments such as foreign exchange forward contracts. These contracts are contracts under which the Corporation is obligated to sell U.S. dollars at a predetermined rate.

Management has implemented a policy to manage foreign exchange risk against the Corporation's functional currency. The objective of the policy is to minimize the risks related to foreign currency transactions, more specifically in U.S. dollars, in order to protect the gross margin from significant fluctuations in the Canadian dollar against foreign currencies and to avoid management speculation on currency values. The Corporation manages this risk exposure by entering into foreign exchange forward contracts. Pursuant to the policy, a maximum of 75% of anticipated net inflows in foreign currencies must be hedged.

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 transactions. Variances in the fair value of non-designated financial instruments are recognized immediately.

As required pursuant to accounting standards, unrealized gains or losses on foreign exchange contracts designated as cash flow hedges at end-of-period dates must be presented, net of taxes, in other comprehensive income. As at December 31, 2010, the Corporation posted a positive amount of other comprehensive income of $2.1 M (positive amount of $2 M as at December 31, 2009). The amount of gain or loss actually realized on the foreign exchange contracts will depend on the value of the Canadian dollar at the time each contract is cashed-in.

Gains (losses) on U.S. dollar denominated monetary items are recognized in other revenues and expenses. Major exchange rate fluctuations could have a significant impact on the translation of these U.S. dollar denominated monetary items and accordingly on other revenues and expenses and net earnings.

(b) Interest Rate Risk

Interest rate risk corresponds to the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates.

The Corporation's interest rate risk arises from bank loans, long-term debt, long-term investments and long-term loans. Borrowings issued at variable rates expose the Corporation to the risk of variance in cash flow due to changes in interest rates, whereas investments and borrowings issued at fixed rates expose the Corporation to the risk of variance in fair value due to changes in interest rates.

Interest income and expenses are recognized in other revenues and expenses. A major change in interest rates could therefore have a significant impact on other revenues and expenses and accordingly on net earnings.

(c) Price Risk

The Corporation's products included 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, the Corporation's flexible business model enables it to change supplier if required in order to minimize this risk. The Corporation does not make use of derivative products on the price of materials.

The Corporation, through its Chinese subsidiary, is increasing its purchasing volume in China to benefit from a better quality-price value. The Corporation analyzes each part individually to determine the best procurement source while considering various factors, including manufacturing cost.

(d) Credit Risk

Cash and cash equivalents are held or issued by financial institutions with a superior-quality credit rating. Hence, the Corporation considers that the risk of non-performance of such considerations is negligible.

The Corporation provides credit to its clients in the normal course of business. It carries out credit checks on its clients on a continual basis and minimizes its credit risks by conducting its operations with a wide variety of clients in several industries.

Trade receivables are presented on the balance sheet net of an allowance for doubtful accounts. The allowance is based on the Corporation's best estimate as to the probability of collecting uncertain accounts. Uncertainty regarding the collection of accounts may derive from various indicators, including deterioration in the credit-worthiness of a client or an abnormal delay in payment of past-due invoices. Management regularly reviews client accounts, ensures that past-due accounts are followed up and evaluates the relevance of its allowance for doubtful accounts.

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

(e) Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they fall due. Management assesses its liquidity risk on a continual basis to ensure that it has sufficient liquidity to meet its obligations.

During fiscal 2010, the Corporation concluded a $2 M financing agreement to finance its business acquisitions. Although the Corporation conducted this financing transaction during the year, there can be no assurance that additional funds might be available under terms and conditions deemed acceptable by the Corporation.

To ensure that sufficient liquidity is available to meet current obligations, the Corporation maintains similar payment terms with its clients as it has with its suppliers. The Corporation has sufficient credit facilities available to make up for temporary lapses in the synchronization of inflows and outflows of funds.

Savaria is involved in an industry subject to various risks and uncertainties. Its operating results and financial position could therefore be adversely affected by the aforementioned financial risks, as well as by 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 insignificant.

Economic Conditions

The purchase of elevators is often a discretionary expense and, accordingly, sensitive to economic fluctuations and conditions in the housing market. The Corporation takes measures to control its expenses and to adjust it personnel in order to adapt working hours to its order backlog.

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 of three (3) to thirty-six (36) months, depending on the product. 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, the effective costs to respect product warranties could differ from those recorded.

Tax Credits

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

Future Income Tax Assets

Subsequent to the acquisition of Liberty, future income tax assets were recorded as it is more likely than unlikely that Liberty's loss carry-forwards will be utilized. A significant reduction in the taxable revenues of the subsidiary could prevent all the losses from being used prior to their expiry.

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.

Dependence on the U.S. Market

In 2010, the percentage of Savaria's sales recorded in the United States totalled 42% (46% in 2009). 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 (the reader is referred to *Economic Conditions* above).

To reduce the risk associated with economic conditions in the United States, the Corporation is expanding its sales territory in Canada and gradually extending it in Asia through its subsidiary located in China.

Environment

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

Lawsuits

Various claims and legal proceedings have been initiated against the Corporation in the normal course of business. Although the outcome of these proceedings cannot be determined with certainty, management estimates that any payments resulting from their outcome are not likely to have a material negative impact on the Corporation's consolidated financial statements.

Measurement Uncertainty

The Corporation holds investments in restructured notes subsequent to the conversion of asset-backed commercial paper ("ABCP"). Such investments undergo a year-end valuation.

There is uncertainty as to their potential cash value. Although management deems its valuation technique appropriate under the circumstances, changes to the principal assumptions used could have a material impact on the value of the restructured notes in upcoming quarters. The resolution of these uncertainties could be such that the definitive value of these investments could differ considerably from management's current best estimates.

21. Outlook

As the U.S. economy struggles to recover, sales of home elevators are not expected to grow, yet the Company expects to maintain sales in this category in spite of reduced consumer spending. Accessibility product sales are predicted to increase in 2011 as a result of increased consumer needs both in the U.S. and Canada as well as new marketing programs to support the Corporation's accessibility product portfolio. Also, because of new product introductions in the *Adapted Vehicles* segment and a more complete portfolio of vehicles, we expect the sales of this segment to account for 20% of sales in 2011 and to contribute to consolidate our position in the accessibility market.

Savaria's strong financial position, competitive pricing, strengthening dealer relationships and implementation of strategic objectives will enable the Company to achieve growth in 2011.

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