SAVARIA CORPORATION

Management's Report

For the Three and Twelve-Month Periods Ended December 31, 2013

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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, 2013 in comparison with those for the corresponding periods of fiscal 2012. It also provides a comparison of its statements of financial position as at December 31, 2013 and 2012. 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 year ended December 31, 2013. Unless otherwise indicated, all amounts are expressed in Canadian dollars and all amounts in tables are in thousands of dollars, except per share amounts.

The financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and the 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 27, 2014. 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 International Financial Reporting Standards

The Corporation's financial statements have been prepared in accordance with IFRS. However, the Corporation uses non-IFRS such as EBITDA, EBITDA per share, working capital, current ratio, book value per share, cash 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, depreciation and amortization ("EBITDA") while EBITDA per share means EBITDA per average diluted number of common shares outstanding. Reconciliation between net income 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 per share corresponds to the result of cash divided by the number of shares outstanding at the end of each period.

Total net debt to invested capital ratio is the result of the total of long-term debt less the net result of cash 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 IFRS and should not be regarded as an alternative to financial information prepared in accordance with IFRS. 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.* The *Accessibility* segment designs, manufactures, distributes and installs products meeting the needs of people with mobility challenges, primarily stairlifts, vertical and inclined platform lifts and elevators for home and commercial use. In addition, our plant located in China assembles accessibility product components and finished products for the benefit of the Corporation's subsidiaries and for the sale of products on the Asian and European markets. The Corporation ranks as North America's leader in the accessibility industry. Its expanded product line is offered through a network of some 600 retailers located primarily in North America. The *Adapted Vehicles* segment converts and adapts vans, also for people with mobility challenges. Annualized revenues for the *Accessibility* segment amount to $62 million ("M"), whereas those in the *Adapted Vehicles* segment amount to $14 M, bringing aggregate revenues to $76 M. Analyses in this report cover the two business segments unless expressly stated otherwise.

Headquartered in Laval, Quebec, Savaria has five other facilities, including a 125,000-square-foot plant in Brampton, Ontario, a 70,000-square-foot plant in Montreal, Quebec, and a 75,000-square-foot plant in Huizhou, China, into which Savaria relocated its Huizhou operations in May 2013, following the signing of a new lease, and two sales offices in London, Ontario, and Calgary, Alberta.

During fiscal 2013, Savaria's revenues were recorded in the United States (51%), Canada (39%) and, to a lesser extent, outside North America (10%). The Corporation has some 380 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 challenges 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 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 per month.

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 of 80. 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 challenges, 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, there remain two main companies that offer a similar product line to Savaria. In November 2012, Savaria's main competitor ceased its U.S. operations, which allowed it to increase its market share. 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. 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 customer-driven culture with customers, end-users and employees. Strategically expand around the world in order to grow revenues 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 customer-driven principles, teamwork and mutual respect.

Our Strategy

Savaria's strategy consists in providing its 600 distributors and its Canadian direct sales centres with the most extensive product selection in the industry, while offering the most reliable and safest products ever.

The acquisition of Concord London and Savaria Lifts in 2010 enabled Savaria to increase its foothold in the Canadian direct sales market in the *Accessibility* segment. Today, Savaria has a direct presence in Montreal, Toronto, Calgary and Edmonton. During 2012, Savaria launched on the market two new accessibility products, specifically platform lifts: Delta, for straight staircases, and Omega, for curved staircases. Furthermore, a new stairlift for curved stairs, the *Stairfriend*, was launched in Q3 2013.

As for the *Adapted Vehicles* segment, the acquisition of Freedom and Liberty, also completed in 2010, expanded our offering of conversion models. A rear entry model is now available along with the side and dual entry models already offered through Van-Action.

The addition of new products and the promotion of our existing products will enable us to offer a complete range of products and will thereby contribute to increasing our sales in the North American and international markets.

7. Fourth Quarter and Fiscal 2013 Highlights

Revenue up 7% for fourth quarter, 13.5% for the year

For 4th quarter of 2013, revenue is up $1.3 M, at $19.1 M, compared with $17.9 M for same quarter previous year. For fiscal 2013, revenue is up 13.5% or $9 M, for a total of $75.7 M, compared with $66.7 M for fiscal 2012. This is the highest annual revenue in the history of Savaria.

Operating income up 8.4% for fourth quarter, 156% for the year

Operating income increased $106,000, to $1.4 M for 4th quarter 2013 compared to $1.3 M same quarter previous year. For fiscal 2013, operating income increased 156% or $4.6 M to $7.5 M compared to $2.9 M for the previous year. Were it not for an income of $350,000 recorded in Q1 2013 derived from a successful sales tax claim and of moving costs of $1 M incurred in 2012 following the relocation of the Brampton, Ontario operations, the increase in operating income would still have been $3.2 M or 82%.

EBITDA up 13.2% for fourth quarter, 113% for the year

The Corporation's EBITDA amounted to $2 M for the 4th quarter of 2013 compared to $1.8 M same quarter previous year, an increase of $239,000, and totalled $9.5 M for fiscal 2013, compared to $4.5 M for fiscal 2012, a significant increase of $5 M. Were it not for the successful claim in 2013 and the moving costs in 2012, the increase in EBITDA would have been $3.7 M or 67%. Reconciliation between net income and EBITDA is provided in Section 9, *Summary of Quarterly Results*.

Dividend

In Q4 2013, the Board of Directors declared a quarterly dividend of 2 cents ($0.02) per common share, in accordance with its new dividend policy. During fiscal 2013, a total of 14 cents ($0.14) was declared in dividends.

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 and percentages)	**2013**	2012	2011
Revenue	**$75,739**	$66,734	$65,274
Gross margin as a % of revenue	***29.4%***	*27.1%*	*27.9%*
Operating costs	**$15,085**	$14,135	$14,838
Operating costs as a % of revenue	***19.9%***	*21.2%*	*22.7%*
Operating income	**$7,509**	$2,930	$3,395
As a % of revenue	***9.9%***	*4.4%*	*5.2%*
EBITDA [(1)]	**$9,538**	$4,488	$5,076
EBITDA per share – basic and diluted	**$0.41**	$0.19	$0.22
Gain (loss) on foreign change	**$330**	$(69)	$137
Net income	**$5,299**	$1,578	$2,001
Earnings per share – basic and diluted	**$0.23**	$0.07	$0.09
Dividends declared per share	**$0.14**	$0.094	$0.102
Weighted average number of common shares outstanding – diluted	**23,444**	23,116	23,246
Total assets	**$49,013**	$49,380	$42,413
Long-term debt (including non-current portion)	**$15,595**	$19,083	$12,861
Total liabilities	**$28,780**	$30,156	$22,268
Equity	**$20,233**	$19,224	$20,145

[(1)] Reconciliation of EBITDA with net income provided in Section 9

The Corporation's revenue, which increased by 2.2% between 2011 and 2012, significantly increased by 13.5% in 2013.

The gross margin, which decreased slightly between 2011 and 2012, mainly due to the unfavourable variation of the effective exchange rate of the U.S. dollar against the Canadian dollar, increased by 2.3 points in 2013, from 27.1% of revenue to 29.4% of revenue. This increase was primarily due to the increase in revenue, and to cost savings following the relocation of the Brampton operations during fiscal 2012.

As for operating income, it was down in 2012 compared to 2011, primarily due to the adverse effect of moving expenses to the amount of $1 M related to the relocation of the Brampton plant, partially offset by lower operating expenses. In 2013, operating income increased significantly, by more than 156%, due to the increase in gross margin and to a gain of $350,000 derived from a successful sales tax claim, as well as to the absence of moving expenses. Operating costs increased by $950,000 in 2013, from $14.1 M to $15.1 M, but decreased as a percentage of revenue, from 21.2% in 2012 to 19.9% in 2013.

Besides the items mentioned above, fluctuations in the gain (loss) on foreign exchange had a significant impact on net income for the last three years. Indeed, the Corporation recorded gains of $137,000 and $330,000 in 2011 and 2013 respectively, while it was a loss of $69,000 in 2012. These variations are related to the closing rate of the U.S. dollar relative to the Canadian dollar. The income tax expense also had a significant impact on net income. An adjustment of accounting estimates related to taxes in 2011 had a negative impact on the effective tax rate in 2011 compared to 2012 and 2013. The effective tax rate went from 30.5% in 2011 to 26.6% in 2012 and 2013.

Along with revenue, EBITDA reached an unprecedented high in 2013, representing 12.6% of revenue compared to an average of 7% in 2012 and 2011.

As discussed in the next section, in 2013 Savaria's new dividend policy paid shareholders a dividend of 14 cents per share, the highest dividend in the history of the Corporation.

Total assets increased significantly in 2012 following the acquisition of a building during the year. The long-term debt increased by $6.2 M in 2012 following the signing of a financing agreement related to the acquisition of this building and the renegotiation of existing debts. The long-term debt decreased by $3.5 M in 2013 due to normal repayment of loans and to the deposit of long-term investments in restructured notes against said debt, following the exercise of an option. Similarly, total liabilities, which had increased by $7.9 M in 2012, decreased by $1.4 M in 2013 despite an increase of $2 M in liabilities related to financial instruments, primarily due to an unfavourable variation to the fair value of foreign exchange contracts.

Lastly, equity went from $20.1 M in 2011 to $19.2 M in 2012 and to $20.2 M in 2013. The decrease of $921,000 in 2012 is primarily due to the declaration of a dividend of $2.2 M which exceeded total comprehensive income, which amounted to $1.2 M. The increase of $1 M in 2013 is mainly due to the total comprehensive income of $3.7 M and the proceeds from the issuance of common shares upon the exercise of stock options to the amount of $562,000, which exceeds the amount of $3.3 M of the declared dividends.

9. Summary of Quarterly Results

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

(in thousands, except per-share amounts and percentages – unaudited)	2013				2012			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
Revenue	**$19,120**	$20,019	$19,397	$17,203	$17,865	$16,166	$17,472	$15,231
Gross margin as a % of revenue	***28.7%***	*29.6%*	*30.5%*	*28.7%*	*26.5%*	*26.1%*	*27.9%*	*27.8%*
Operating costs (1)	**$4,110**	$3,506	$3,963	$3,506	$3,457	$3,501	$3,663	$3,514
As a % of revenue	***21.5%***	*17.5%*	*20.4%*	*20.4%*	*19.4%*	*21.7%*	*21%*	*23.1%*
Operating income	**$1,375**	$2,420	$1,936	$1,778	$1,269	$(135)	$1,090	$706
As a % of revenue	***7.2%***	*12.1%*	*10%*	*10.3%*	*7.1%*	*(0.8)%*	*6.2%*	*4.6%*
Gain (loss) on foreign exchange	**$236**	$(128)	$126	$96	$48	$(151)	$65	$(31)
Net income (loss)	**$1,125**	$1,517	$1,425	$1,232	$952	$(425)	$691	$360
Earnings per share – basic and diluted	**$0.05**	$0.07	$0.06	$0.05	$0.04	$(0.02)	$0.03	$0.02
EBITDA (2)	**$2,045**	$2,690	$2,525	$2,278	$1,806	$62	$1,601	$1,019
EBITDA per share – basic and diluted	**$0.09**	$0.11	$0.11	$0.10	$0.08	$0.003	$0,07	$0.04
Dividend declared per share	**$0.02**	$0.02	$0.02	$0.08	-	-	-	$0.094
Weighted average number of common shares outstanding– diluted	**23,855**	23,524	23,302	23,109	23,132	23,145	23,126	23,197

(1) "Operating costs" include: administrative expenses, selling expenses, engineering expenses and research and development expenses

(2) Reconciliation of EBITDA with net income provided in the following table

In 2013, the Corporation achieved record-breaking revenue every quarter. This is primalrily due to Savaria's main competitor having ceased its U.S. operations in November 2012. Note that revenue for Q3 2012 was low for the time of year due to the production shutdown at the Brampton plant to relocate the operations to a new building.

In 2013, gross margin averaged 29.4% compared to 27.1% in 2012. The high level of revenue and the cost reduction due to the relocation of the Brampton operations in a new building in Q3 2012 explain the increase in gross margin in 2013.

Although operating costs of Q4 2013 are higher due to bonuses and a severance pay, as well as an increase in marketing costs, they average 19.9% of revenue in 2013 compared to 21.2% in 2012.

Although high compared to previous years, EBITDA for the 4th quarter of 2013 is lower to those in previous quarters of the same year. The combined effect of the reduction in gross margin and higher operating costs explain this variation.

Given the new dividend policy of the Corporation, a quarterly dividend of 2 cents per share was paid in 2013 in addition to the dividend of Q1 which is based on the results of the previous year.

Reconciliation of EBITDA with Net Income

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

Reconciliation between net income (loss) and EBITDA is provided in the table below.

(in thousands of dollars – unaudited)	**2013**					2012				
	Total	**Q 4**	Q 3	Q 2	Q 1	Total	Q 4	Q 3	Q 2	Q 1
Net income (loss)	**$5,299**	**$1,125**	$1,517	$1,425	$1, 232	$1,578	$952	$(425)	$691	$360
Plus: Interest on long-term debt	**612**	**135**	147	156	174	732	210	204	194	124
Interest expense and banking fees	**127**	**36**	45	24	22	96	28	23	20	25
Income tax expense (recovery)	**1,920**	**319**	591	532	478	571	222	(141)	340	150
Depreciation of fixed assets	**831**	**230**	220	208	173	789	201	235	176	177
Amortization of intangible assets	**765**	**204**	178	182	201	752	196	176	188	192
Less: Interest Income	**16**	**4**	8	2	2	30	3	10	8	9
EBITDA	**$9,538**	**$2,045**	$2,690	$2,525	$2,278	$4,488	$1,806	$62	$1,601	$1,019

The following section provides a detailed analysis of operating results for the 4th quarter of 2013, in comparison with the same quarter of 2012, and of fiscal 2013 year-to-date in comparison with the previous year. The detailed analysis of prior quarters is provided in the interim reports for fiscal 2013 and 2012, available on SEDAR's website at www.sedar.com.

10. Operating Results

Certain data on results for the 4th quarter and the fiscal year ended December 31, 2013 are presented in the following tables.

Gross margin

(in thousands of dollars, except percentages)	3 Months (Unaudited)			12 Months		
	2013	2012	Change	**2013**	2012	Change
Revenue	**$19,120**	$17,865	7%	**$75,739**	$66,734	13.5%
Cost of sales	**$13,636**	$13,137	3.8%	**$53,484**	$48,679	9.9%
Gross margin	**$5,484**	$4,728	16%	**$22,255**	$18,055	23.3%
As a % of revenue	***28.7%***	*26.5%*	*n/a*	***29.4%***	*27.1%*	*n/a*

Revenue for the 4th quarter of 2013 was up by $1.3 M or 7% from revenue recorded for same quarter previous year. This increase includes a favourable variation of foreign exchange to the amount of $374,000. Revenue for the *Accessibility* segment is up 7.4%, from $14.6 M for the 4th quarter of 2012 to $15.7 M for the 4th quarter of 2013, while revenue for the *Adapted Vehicles* segment is up 5.2% from $3.2 M for the 4th quarter of 2012 to $3.4 M for the 4th quarter of 2013. For fiscal 2013, revenue is up $9 M or 13.5% compared to same period previous year. Revenue for the *Accessibility* segment is up 18.5% or $9.7 M, while revenue for the *Adapted Vehicles* segment is down $710,000 or 5%.

The proportion of revenue from the United States on total revenue increased significantly during the 4th quarter of 2013 and during fiscal 2013 compared to the same periods previous year, from 46% in 2012 to 54%, and from 44% in 2012 to 51%, respectively; and conversely, the proportion of domestic revenue for 4th quarter of 2013 and fiscal 2013 have declined from 43% in 2012 to 36% and from 45% in 2012 to 39% respectively. Revenue from outside North America is stable in terms of percentage, at 10%, whereas they are up in terms of dollars, from $7 M for fiscal 2012 to $7.8 M for fiscal 2013. An increase in market share following the closing of Savaria's main competitor's U.S. operations in November 2012 explains the increase in revenue in the United States.

Gross margin is up by $756,000 for the 4th quarter of 2013 compared to the corresponding quarter of 2012. In percentage of revenue, gross margin went from 26.5% for the 4th quarter of 2012 to 28.7% for the 4th quarter of 2013. For the twelve-month period, gross margin is up $4.2M, at 29.4% of revenue in 2013 compared to 27.1% in 2012. The high level of revenue and the cost reduction due to the relocation of the Brampton operations in a new building in 2012 explain this increase.

The proportion of purchases from the subsidiary Savaria Huizhou and other suppliers in Asia was $11.7 M in 2013, representing 41.2% of purchases of raw materials of the subsidiary Savaria Concord, on the rise from 35.3% for 2012. Note that 78% of the total value of purchases from Asia is from the subsidiary Savaria Huizhou.

Operating Income

(in thousands of dollars, except percentages)	3 Months (Unaudited)			12 Months		
	2013	2012	Change	**2013**	2012	Change
Operating costs	**$4,110**	$3,457	18.9%	**$15,085**	$14,135	6.7%
As a % of revenue	***21.5%***	*19.4%*	*n/a*	***19.9%***	*21.2%*	*n/a*
Other income (costs)	**$1**	$(2)	150%	**$339**	$(990)	134%
Operating income	**$1,375**	$1,269	8.4%	**$7,509**	$2,930	156%
As a % of revenue	***7.2%***	*7.1%*	*n/a*	***9.9%***	*4.4%*	*n/a*

The proportion of operating costs relative to revenue increased $653,000 in the 4th quarter of 2013 compared to the same period in 2012. The main reason for this increase is higher remuneration of $464,000, which includes bonuses and a severance pay. For the twelve-month period, the proportion of operating costs relative to revenue is decreasing while in dollar terms, it increased by $950,000 compared to the same period in 2012. Costs reductions due to the relocation of the Brampton operations in the building acquired in 2012 helped keeping the increase in these costs at a level well below the increase in revenue.

Income of $350,000, recorded in Q1 2013, resulted from winning an appeal in relation to an assessment related to sales tax. The assessment in question covered a period prior to the acquisition of a company in 2005. In 2012, other costs for the twelve-month period included $1 M in moving costs related to the relocation of the Brampton operations in a new building.

The combination of the increase in gross margin and a favourable variation in other income (costs), although decreased by higher operating expenses, had a positive net effect on operating income of $4.6 M for the year. Were it not for the $350,000 income recorded in Q1 2013 derived from a successful sales tax claim and for moving expenses of $1 M incurred in 2012 following the relocation of the Brampton, Ontario operations, the increase in operating income would still have been $3.2 M or 82%.

Net Income

(in thousands of dollars, except percentages)	3 Months (Unaudited)			12 Months		
	2013	2012	Change	**2013**	2012	Change
Net finance income (costs)	**$69**	$(95)	173%	**$(290)**	$(781)	62.9%
Income before income tax	**$1,444**	$1,174	23%	**$7,219**	$2,149	236%
Income tax expense	**$319**	$222	43.7%	**$1,920**	$571	236%
Net income	**$1,125**	$952	18.2%	**$5,299**	$1,578	236%
As a % of revenue	***5.9%***	*5.3%*	*n/a*	***7%***	*2.4%*	*n/a*
EBITDA	**$2,045**	$1,806	13.2%	**$9,538**	$4,488	113%
As a % of revenue	***10.7%***	*10.1%*	*n/a*	***12.6%***	*6.7%*	*n/a*

We notice a favourable variation in net financial expenses for Q4 and fiscal 2013 compared to the same periods of 2012. The improvement of $164,000 in Q4 is primarily due to a favourable variation in foreign exchange gains and losses of $188,000 and interest charges of $67,000, partially offset by an unfavourable variation in the fair value of the restructured notes and put option of $91,000. The improvement of $491,000 for the twelve-month period is mainly due to a favourable variation in foreign exchange gains and losses of $399,000 and interest charges of $89,000. Gains and losses on foreign exchange are mostly attributable to the end-of-period translation of monetary items denominated in U.S dollars.

The effective income tax rate for the 4th quarter is 22.1% in 2013 and 18.9% in 2012, while it is 26.6% for the year for 2013 and 2012, compared to the combined corporate rate of 25.2%.

Net income and EBITDA increased significantly, both in Q4 and in fiscal 2013, with annual increases of $3.7 M and $5 M respectively for 2013. Were it not for the successful claim in 2013 and the moving costs in 2012, the increase in EBITDA would still have been very significant: an increase of $3.7 M. These outstanding results have been reached thanks to the increase in Savaria's market share in the U.S. and the combination of tight costs control and productivity gains.

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 presented at their fair value in the statement of financial position according to their maturity date. Unrealized gains and losses not recognized as net income are recorded in *Accumulated other comprehensive income*.

As at December 31, 2013, the Corporation held foreign exchange contracts totaling $53 M U.S. for a hedging period up to December 31, 2016, at an average rate of 1.0349. As at December 31, 2013, the unrealized loss on these foreign exchange contracts amounted to $2.1 M and appears on the statement of financial position under *Derivative financial instruments* of Current and Non-current liabilities as well as in *Accumulation other comprehensive income*. In addition, a gain before taxes of $229,000 from the sale of foreign exchange contracts before maturity is recorded in *Accumulated other comprehensive income* and will be reversed to net income between now and May 2015, depending on the hedging period of each contract.

Coverage of interest rates

The Corporation signed a financing agreement in April 2012 comprising of two long-term debts for a total of $16.6 M. Since those debts bear interest at variable rates, the Corporation decided to enter into interest rate swap contracts to minimize its risk related to changes in interest rates. It therefore has signed a first swap related to an original capital amount of $7 M with a fixed interest rate of 3.48%, and a second swap related to an original capital amount of $9.6 M with a fixed interest rate of 3.58%, both for a 5-year period.

As with currency hedges, the Corporation applies hedge accounting, which enables the recording of unrealized gains and losses related to the derivative financial instrument to *Accumulated other comprehensive income*, while fair value is recorded in the statement of financial position. As at December 31, 2013, the unrealized loss on the interest rate swaps amounts to $159,000 and is reflected on the statement of financial position under *Derivative financial instruments* of Current and Non-current liabilities as well as in *Accumulated other comprehensive income*.

11. Financial Position

Changes between Statements of Financial Position

The following table shows the key changes in the statements of financial position between December 31, 2013 and December 31, 2012, along with the principal explanations of such changes:

(in thousands of dollars, except percentages and explanations of changes)	**December 31, 2013**	December 31, 2012	Change	Principal causes of the changes
Currrent assets				
Trade and other receivables	**$11,711**	$11,592	$119	Increase in the exchange rate used for the conversion of U.S. dollar denominated receivables (+$456 K), decrease in trade receivables (-$415 K), increase in sales taxes receivable (+$182 K) and decrease in other receivables (-$132 K).
No. of days in receivables (based on the average of the last four quarters)	**59**	57	3.5%	Note that the number of days in receivables for the 4th quarter of 2013 is 55 days compared to 61 days for the same quarter of 2012.
Inventories	**$14,179**	$12,800	$1,379	Increase in inventory at the Brampton plant (+1.4 M) related to incease in sales volume. The inventory turnover rate went from 3.7 in 2012 to 3.94 in 2013.
Current portion of long-term investments	**$ -**	$636	$(636)	Transfer of ownership of the restructured notes to the Corporation's bank following the exercise of a put option.
Non-current assets				
Fixed assets	**$12,302**	$11,792	$510	Additions (+$1.3 M), depreciation (-$831 K), and disposals and write-offs (-$33 K).
Intangible assets	**$1,679**	$2,138	$(459)	Amortization (-$765 K) and increase (+$306 K).

(in thousands of dollars, except percentages and explanations of changes)	**December 31, 2013**	December 31, 2012	Change	Principal causes of the changes
Long-term investments	**$ -**	$829	$(829)	Transfer of ownership of the restructured notes to the Corporation's bank following the exercise of a put option.
Deferred tax assets	**$1,960**	$1,486	$474	Increase in deferred taxes related to foreign exchange contracts and interest rate swaps included in accumulated other comprehensive loss (+$594 K).
Current liabilities				
Income taxes payable	**$775**	$234	$541	Increase due to current tax expense (+$1.8 M), application of tax credits receivable (-$914 K) and tax payments (-$340 K).
Derivative financial instruments	**$1,113**	$117	$996	Change in unrealized losses on interest rate swaps related to the current portion of long-term debt (-$6 K) and unrealized losses on foreign exchange contracts maturing in the next twelve months (+$1 M).
Current portion of long-term debt	**$2,864**	$3,619	$(755)	See explanations under "*Long-term debt*".
Non-current liabilities				
Long-term debt	**$12,731**	$15,464	$(2,733)	Normal repayment of the debt (-$1.8 M), new debt (+$557 K), partial repayment of a note payable related to a 2010 acquisition (-$600 K), transfer of investments in restructured notes against the debt (-$1.5 M) and final payment on the related debt (-$274 K), and other minor variations.

(in thousands of dollars, except percentages and explanations of changes)	**December 31, 2013**	December 31, 2012	Change	Principal causes of the changes
Derivative financial instruments	**$1,146**	$174	$972	Change in unrealized losses on interest rate swaps related to the non-current portion of long-term debt (-$126 K) and unrealized losses on foreign exchange contracts maturing after the next twelve months (+$1.1 M).
Equity	**$20,233**	$19,224	$1,009	Net income (+$5.3 M), share issue (+$562 K), dividends paid (-$3.3 M) and change in accumulated other comprehensive income (loss) (-$1.6 M).
Working capital	**$14,749**	$14,550	$199	Increase in inventories (+$1.4 M), decrease in the current portion of long-term loans (-$299 K) and long-term investments (-$636 K), increase in income taxes payable (-$541 K) and in financial instruments (-$1 M), and decrease in deferred revenues (+$478 K) and in the current portion of long-term debt (+$755 K).
Current ratio	**2.04**	2.05	(0.5)%	See above.

As at December 31, 2013, Savaria benefited from a sound financial position, with total assets of $49 M, compared with $49.4 M as at December 31, 2012, and total liabilities of $28.8 M, compared with $30.2 M as at December 31, 2012.

Available Sources of Financing

(in thousands of dollars)	December 31,	
	2013	2012
Credit facilities:		
Authorized	**$5,000**	$5,000
Loans	**-**	-
Unused credit	**5,000**	5,000
Cash	**1,968**	1,993
Total	**$6,968**	$6,993

As shown above, the Corporation had total available funds of $7 M as at December 31, 2013, providing the flexibility to meet its potential obligations in the near term.

The Corporation minimizes its exposure to fluctuations in interest rates by keeping most of its debt at fixed rate using swap contracts (see *Coverage of interest rates* in Section 10 for details).

Furthermore, the Corporation can incur potential risks of loss on foreign exchange contracts for up to a maximum of $4.5 M over a maximum hedging period of 36 months. This amount is the maximum amount of unrealized losses, as defined by the bank, that foreign exchange contracts held by the Corporation can represent at one time; however, beyond an amount of $3.3 M, the bank could realize the collateralized security to cover such risk.

In April 2013, the Corporation exercised its option allowing it to assign ownership of its ineligible assets tracking notes to its financial institution in payment of portion A of the related loan, and also assigned its MAV 2 notes. In order to settle the remaining balance of the two related loans with a carrying value of $1,817,000, it also disbursed the sum of $274,000. As a result, a net gain, before income taxes, of $65,000 was recognized in Q2 2013.

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

As at December 31, 2013, the Corporation's total net debt to invested capital ratio stood at 40.2% (47.1% as at December 31, 2012).

Other Data and Ratios

(in thousands of dollars, except per-share amounts – unaudited)	December 31,		Change
	2013	2012	
Book value per share	**$0.86**	$0.84	2.4%
Cash per share	**$0.08**	$0.09	(11.1)%
Market capitalization	**$68,360**	$35,739	91.3%

Market capitalization is up due to an increase in the value of the common shares of the Corporation, which went from $1.56 as at December 31, 2012 to $2.92 as at December 31, 2013.

12. Cash Flows

The following table presents certain cash flow data for the 4th quarter and for the year.

(in thousands of dollars)	3 Months (Unaudited)			12 Months		
	2013	2012	Change	**2013**	2012	Change
Net cash from operating activities	**$1,519**	$1,284	18.3%	**$6,969**	$4,854	43.6%
Net cash used in investing activities	**$(337)**	$(264)	(27.7)%	**$(1,459)**	$(9,981)	85.4%
Net cash from (used in) financing activities	**$(1,095)**	$(1,786)	38.7%	**$(5,535)**	$3,189	(274)%

The Corporation's cash flows from operating activities is up by $235,000 for the 4th quarter of 2013 and up by $2.1 M for fiscal 2013 over the corresponding periods of previous year. The differences are due mainly to a favourable variation from operations (+$352 K for the quarter, +$4.9 M for the year) partially offset by an unfavourable variation in non-cash operating items (-$31 K for the quarter and -$2.8 M for the year).

The Corporation's cash flows in investing activities is up $73,000 in the 4th quarter and down by $8.5 M for the year compared to the same periods in 2012, primarily due to a variation in the additions to fixed assets (-$72 K for the quarter, +$9.9 M for the year); indeed, a building was acquired in April 2012 at the cost of $9.8 M. This was offset by an unfavourable variation in restricted cash of $1.1 M.

In regard to financing activities, there is a favourable variation of $691,000 in Q4 and an unfavourable variation of $8.7 M for the year compared to the same periods of 2012. The quarterly variation is primarily due to a favourable change in bank loans (+$2.1 M), partially offset by an unfavourable variation of the increase in long-term debt (-$1 M) and by the payment of dividends (-$469 K). For the year, the variation is mainly due to the cashing of new long-term debt of $9.6 M in 2012 related to the acquisition of the new building, partially offset by higher dividends paid in 2013 to the amount of $1.1 M.

13. Significant Accounting Estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment are the measurement of derivative financial instruments, the goodwill and the deferred tax liabilities.

The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). The fair value of interest rate swap arrangements is estimated by discounting the difference between the contractual interest rate and market rates over the value of the loans.

The recoverable amount of goodwill is estimated at the same time each year, or more frequently if there are indications of impairment. For the purposes of assessing impairment of goodwill, goodwill acquired through business acquisitions is allocated to the cash generating unit ("CGU") or group of CGUs, expected to benefit from the synergies of the acquisition. Each CGU or group of CGUs to which the goodwill is allocated shall represent the lowest level at which goodwill is monitored for internal management purposes and should not be, before allocation of goodwill, greater than an operational segment. The recoverable amounts of these CGUs are based on their value in use. They are determined by discounting the future cash flows generated by the continued use of the units. The calculation of value in use is based on the following key assumptions:

- Cash flows are projected over a period of five years based on past experience and actual operating results using a constant growth rate of 2% for the *Accessibility* segment, and nil for the *Adapted Vehicles* segment;

- The anticipated annual revenue growth included in the cash flow projections are based on the business plan;

- A high and low pre-tax discount rate of 14% and 12.6% percent (12.1% and 11% in 2012) is applied in determining the recoverable amount of the unit. The discount rate used is based on past experience and industry average weighted average cost of capital, which is based on a possible range of debt leveraging of 34% at a market interest rate of 3.5%;

- The values assigned to the key assumptions represent management's assessment of future trends in the accessibility industry and are based on both external sources and internal sources (historical data).

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

14. New Accounting Policies

(A) New accounting standards adopted during fiscal 2013

The following new standards, and amendments to standards and interpretations have been applied in preparing the consolidated financial statements as at December 31, 2013. The adoption of these new standards has not had a material impact on the consolidated financial statements.

IFRS 10 - *Consolidated Financial Statements*

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

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

IFRS 13 - *Fair Value Measurement*

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

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

Amendments to IAS 1 - *Presentation of Financial Statements*

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

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

Amendments to IAS 19 - *Employee Benefits*

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

(B) New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2013, and have not been applied in preparing these consolidated financial statements.

IFRS 9 - *Financial Instruments*

In November 2009, the International Accounting Standards Board ("IASB") issued IFRS 9, *Financial Instruments* (IFRS 9 (2009)), and in October 2010, the IASB published amendments to IFRS 9 (IFRS 9 (2010)). In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9, *Financial Instruments* (2013). The new standard removes the January 1, 2015 effective date of IFRS 9. The new mandatory effective date will be determined once the classification and measurement and impairment phases of IFRS 9 are finalized.

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional changes relating to financial liabilities. IFRS 9 (2013) includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness. However it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

The Corporation intends to adopt IFRS 9 (2009), IFRS 9 (2010) and/or IFRS 9 (2013) in its consolidated financial statements for the annual period beginning on January 1, 2014. The extent of the impact of adoption of IFRS 9 (2013) has not yet been determined.

Amendments to IAS 32 - *Offsetting Financial Assets and Liabilities*

In December 2011, the IASB published *Offsetting Financial Assets and Financial Liabilities*. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. These amendments are to be applied retrospectively.

The amendments to IAS 32 clarify that an entity currently has a legally enforceable right to set-off if that right is:

- not contingent on a future event; and
- enforceable both in the normal course of business and in the event of default, insolvency bankruptcy of the entity and all counterparties.

The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement.

The Corporation intends to adopt the amendments to IAS 32 in its consolidated financial statements for the annual period beginning January 1, 2014. The Corporation does not expect the amendments to have a material impact on the consolidated financial statements.

Amendments to IAS 36 - *Recoverable Amount Disclosures for Non-Financial Assets*

In May 2013, the IASB issued *Recoverable Amount Disclosures for Non-Financial Assets* (amendments to IAS 36) to reverse the unintended requirement in IFRS *13, Fair Value Measurement,* to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed.

The amendments are applied retrospectively to the annual periods beginning on January 1, 2014, but early adoption is recommended in order to avoid the involuntary disclosure requirements brought upon by the issuing of IFRS 13.

The Corporation decided on early adoption of the amendments in its consolidated financial statements for the annual period beginning on January 1, 2013 and will not provide additional information on the recoverable amount of each cash-generating unit to which a significant goodwill or intangible assets with indefinite useful lives have been allocated because no impairment or reversal of impairment has been recognized.

Amendments to IAS 39 - *Novation of Derivatives and Continuation of Hedge Accounting*

In June 2013, the IASB issued *Novation of Derivatives and Continuation of Hedge Accounting* (amendments to IAS 39). The amendments are effective for annual periods beginning on or after January 1, 2014.

The amendments add a limited exception to IAS 39 to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria.

The Corporation intends to adopt the amendments in its consolidated financial statements for the annual period beginning January 1, 2014. The Corporation does not expect the amendments to have a material impact on the consolidated financial statements.

IFRIC 21 – *Levies*

In May 2013, the IASB issued IFRIC 21, *Levies*. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014 and is to be applied retrospectively.

IFRIC 21 provides guidance on accounting for levies in accordance with the requirements of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets.* The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also notes that levies do not arise from executory contracts or other contractual arrangements. The interpretation also confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs.

The Corporation intends to adopt IFRIC 21 in its consolidated financial statements for the annual period beginning January 1, 2014. The Corporation does not expect the amendments to have a material impact on the consolidated financial statements.

***Annual Improvements to IFRS* 2010 – 2012 and 2011 – 2013 cycles**

In December 2013, the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014. Earlier application is permitted, in which case, the related consequential amendments to other IFRS would also apply.

Amendments were made to clarify the following in their respective standards:

- Definition of "vesting condition" in IFRS 2, *Share-based payment;*
- Classification and measurement of contingent consideration, and scope exclusion for the formation of joint arrangements in IFRS 3, *Business Combinations*;

- Disclosures on the aggregation of operating segments in IFRS 8, *Operating segments*;
- Measurement of short-term receivables and payables, and scope of portfolio exception in IFRS *13, Fair Value Measurement;*
- Restatement of accumulated depreciation (amortization) on revaluation in IAS 16, *Property, Plant and Equipment,* and *IAS 38, Intangible Assets;*
- Definition of "related party" in IAS 24, *Related Party Disclosures*; and
- Inter-relationship of IFRS 3 and IAS 40 in IAS 40, *Investment Property*.

Special transitional requirements have been set for amendments to IFRS 2, IAS 16, IAS 38 and IAS 40.

The Corporation intends to adopt these amendments in its consolidated financial statements for the annual period beginning on January 1, 2015. The Corporation does not expect the amendments to have a material impact on the consolidated financial statements.

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, 2013 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") (COSO framework of 1992). Based on that evaluation, management as well as the Chief Executive Officer and the Chief Financial Officer concluded, as at December 31, 2013, 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 IFRS.

Changes to Internal Control over Financial Reporting

No changes in the Corporation's internal control over financial reporting occurred during fiscal 2013 that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

16. Commitments

In addition to the debts appearing in the statement of financial position, the Corporation has concluded lease agreements for the rental of certain premises and entered into operating leases for rolling stock and equipment for a total of $2,690,000 ($2,202,000 in 2012).

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

(in thousands of dollars)	**Total**	2014	2015	2016	2017	2018	After 2018
Long-term debt obligations	**$17,689**	$3,266	$2,169	$2,068	$1,993	$1,877	$6,316
Capital leases	**142**	60	47	26	7	2	-
Operating leases	**2,690**	987	952	445	235	13	58
Total contractual obligations	**$20,521**	$4,313	$3,168	$2,539	$2,235	$1,892	$6,374

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 2013.

18. Related-Party Transactions

On July 25, 2013, the Corporation received a sum of $257,000 representing the repayment of a long-term loan to a director in the amount of $250,000 plus interest of $7,000. The loan had been provided in 2007 in relation to the exercise of stock options. This repayment resulted in an increase in share capital of $250,000 and a decrease in the number of outstanding options of 200,000.

The Corporation recorded an amount of $50,000 ($41,000 in 2012) for accounting and tax services rendered by an entity whose officer is a director and chief financial officer 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.

The Corporation signed a lease with an entity owned by a director and the President and chief executive officer of the Corporation. Under the terms of the lease, an amount of $4,000 was paid to that company in 2013 (2012-nil). The lease expires in October 2016, and the total remaining commitment is $71,000. The terms and conditions attached to this agreement reflect market conditions.

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.

(in thousands of dollars)	Assets and liabilities Presented at Fair Value	Assets and Liabilities Presented at Amortized Cost	**Total**	**Fair Value**
Financial assets				
Cash	$ -	$1,968	**$1,968**	**$1,968**
Trade and other receivables	-	10,936	**10,936**	**10,936**
Long-term loans	-	189	**189**	**182**
Total financial assets	$ -	$13,093	**$13,093**	**$13,086**
Financial liabilities				
Trade and other payables	$ -	7,391	**7,391**	**7,391**
Derivative financial instruments	2,259	**-**	**2,259**	**2,259**
Long-term debt	-	15,595	**15,595**	**15,592**
Total financial liabilities	$2,259	$22,986	**$25,245**	**$25,242**

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 currency risks and interest rate risks. 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 58% (53% in 2012) of its revenues 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 revenue 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 fixed 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 U.S. dollars 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. Changes 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, 2013, the Corporation shows a debit amount of *Accumulated other comprehensive income (loss)* of $1,398,000 (credit amount of $463,000 as at December 31, 2012). The amount of gain or loss actually realized on 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 Finance income (costs). Major exchange rate fluctuations could have a material impact on the translation of these U.S. dollar denominated monetary items and, accordingly, on Finance income (costs) and net income.

(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 its long-term loans, bank loans and long-term debt. Borrowings issued at variable rates expose the Corporation to risks of cash flow variation related to interest rate fluctuations, whereas borrowings issued at fixed rates expose the Corporation to fair value variation due to interest rate fluctuations.

The majority of the Corporation's debts bear interest at variable rates. The Corporation analyzes interest rate risk exposure on a continuous basis and examines its renewal and refinancing options in order to minimize risks.

Along this line, the Corporation signed interest rate swap agreements in April 2012. It signed a first swap agreement related to an original capital amount of $7 M with a fixed interest rate of 3.48%, and a second swap agreement related to an original capital amount of $9.6 M with a fixed interest rate of 3.58%, both for a 5-year period. These derivatives were designated as hedges for accounting purposes. The total balance of loans covered by the swap agreements was $13,838,000 as at December 31, 2013 ($15,471,000 as at December 31, 2012). As at December 31, 2013, the Corporation shows a debit amount of $116,000 in *Accumulated other comprehensive income (loss)* ($213,000 at December 31, 2012).

Interest income and expenses are recognized in Finance income (costs). A major change in interest rates would not have a significant impact on net income but would result in an increase or decrease of "Other comprehensive income (loss)".

(c) Price Risk

The Corporation's products include a high number of components manufactured by hundreds of 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 Asia 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 is held or issued by financial institutions with a superior-quality credit rating. Hence, the Corporation considers that the risk of non-performance of such instruments 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 statement of financial position 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.

(e) Liquidity Risk

Liquidity risk represents 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 2013, Savaria concluded a $564,000 financing agreement to finance the acquisition of equipment. 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 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 as well as apprenticeship tax credits. These could be affected by any legislative change.

Deferred Tax Assets

Deferred tax assets were recognized as it is likely that related loss carry-forwards will be utilized. However, certain events 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 ranks as North America's leader in the accessibility 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 2013, the percentage of Savaria's revenue recorded in the United States totalled 51% (44% in 2012). 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 outside the U.S. market, mainly in Canada.

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.

The Corporation has received a claim with respect to the non-payment of a note payable related to the acquisition of Freedom as well as an amount related to the employment contract with the former owner of this company. The Corporation has instituted a counter-claim with respect to this same transaction. The outcome of these claims cannot be determined at this time.

21. Subsequent event

On March 12, 2014, the Board of Directors of the Corporation declared a dividend of 13 cents ($0.13) per common share payable on April 7, 2014 to shareholders of record of the Corporation at the close of business on March 24, 2014.

22. Outlook

2013 has been an exceptional year for Savaria, both in terms of revenue and EBITDA. We are confident that 2014 will follow that momentum. Furthermore, the launch in the market of our new stairlift for curved staircases, the *Stairfriend*, in Q3 2013, will bear fruit in 2014 and will provide added revenue.

We look toward the future with enthusiasm, given that the demand for accessibility products from people with mobility challenges should continue to grow. Ultimately, our strong financial position will allow us to further product development and enable us to develop new markets.

March 24, 2014