May 12, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS ENDED APRIL 3, 2011

Information in this Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of NFI (as defined below) is supplemental to, and should be read in conjunction with, NFI's interim condensed consolidated financial statements (including notes) (the "Financial Statements") for the 13-week period ended April 3, 2011 ("2011 Q1"). This MD&A contains forward-looking statements, which are subject to a variety of factors that could cause actual results to differ materially from those contemplated by these statements. See "Forward-looking Statements". Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the factors described in NFI's public filings available on SEDAR at www.sedar.com. The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and, except where otherwise indicated, are presented in U.S. dollars, representing the functional currency of NFI. Unless otherwise indicated, the financial information contained in this MD&A has been prepared in accordance with IFRS and references to "$" or "dollars" mean U.S. dollars.

MEANING OF CERTAIN REFERENCES

New Flyer Industries Inc. ("NFI"), an Ontario corporation, is the issuer of the common shares ("Common Shares") and New Flyer Industries Canada ULC ("NFI ULC"), an Alberta unlimited liability corporation, is the issuer of the Subordinated Notes, that, together form the income deposit securities of the Issuer ("IDSs"). As of April 3, 2011, 49,475,279 Common Shares were outstanding 49,455,279, of which were represented by IDSs. Each IDS represents one common share and C$5.53 principal amount of Subordinated Notes. Unless otherwise stated or the context otherwise requires, references to the "Issuer" refer, collectively, to NFI and NFI ULC. References in this MD&A to "New Flyer" or the "Company" are to New Flyer Holdings, Inc. ("NFL Holdings") and its consolidated subsidiaries immediately prior to, and to New Flyer Industries Inc. and its consolidated subsidiaries immediately following, the consummation of the transactions completed on July 12, 2007 and described in note 1 of the consolidated financial statements of NFI for the 52-week period ended December 28, 2008 ("Fiscal 2008") under "2007 transaction" (the "2007 Offering"). References in this MD&A to "management" are to management of the Company and the Issuer. As a result of the 2007 Offering, effective July 12, 2007, NFI began to consolidate assets, liabilities and the results of operations of NFL Holdings and its subsidiaries.

On June 24, 2010, the Company announced that it completed the retained interest conversion transaction, resulting in the issuance of 2,152,179 IDSs, representing approximately 4% of the outstanding IDSs, in exchange for all of the issued and outstanding 463,875 Class B common shares ("Class B Shares") and 2,053,657 Class C common shares ("Class C Shares") of NFI's subsidiary, NFL Holdings, indirectly held by certain current and former members of management (the "Retained Interest Conversion"). As a result, NFI now holds 100% of the economic and voting interest in NFL Holdings. For the purposes of this MD&A, the financial information of NFL Holdings is combined with NFI for the periods prior to July 12, 2007. Consolidated financial information for NFI is shown for periods beginning on or after July 12, 2007.

Additional information about the Issuer and the Company, including the Issuer's annual information form is available on SEDAR at www.sedar.com.

All of the data presented in this MD&A with respect to market share, the number of heavy-duty transit buses in service and the number of heavy-duty transit buses ("buses") delivered is measured in, or based on, "equivalent units". One equivalent unit (or "EU") represents one 30-foot, 35-foot or 40-foot heavy-duty transit bus. One articulated bus represents two equivalent units. An articulated bus is an extra long bus (55-feet to 60-feet in length), composed of two passenger compartments connected by a joint mechanism. The joint mechanism allows the vehicle to bend when the bus turns a corner, yet have a continuous interior.

Forward-looking Statements

Certain statements in this MD&A are "forward-looking statements", which reflect the expectations of management regarding the Issuer's and the Company's future growth, results of operations, performance and business prospects and opportunities. The words "believes", "anticipates", "plans", "expects", "intends", "projects", "estimates" and similar expressions are intended to identify forward-looking statements. These forward-looking statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this MD&A. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not or the times at or by which such performance or results will be achieved. A number of factors could cause actual results to differ materially

from the results discussed in the forward-looking statements. Such differences may be caused by factors which include, but are not limited to, competition in the heavy-duty transit bus industry, availability of funding to the Company's customers to purchase buses, parts or services at current levels or at all, competition and aggressive and reduced pricing in the industry, material losses and costs may be incurred as a result of product warranty issues, material losses and costs may be incurred as a result of product liability claims, changes in Canadian or United States tax legislation, the Company's success depends on a limited number of key executives who the Company may not be able to adequately replace in the event that they leave the Company, the absence of fixed term customer contracts and the termination of contracts by customers for convenience, the current "Buy-America" legislation and the Ontario government's Canadian content purchasing policy may change and/or become more onerous, production delays may result in liquidated damages under the Company's contracts with its customers, the Company's ability to execute its planned production targets and reallocate production as a result of deferred bus orders, the Company's ability to generate cash from the planned reduction in excess work in process, currency fluctuations could adversely affect the Company's financial results or competitive position in the industry, the Company may not be able to maintain performance bonds or letters of credit required by its existing contracts or obtain performance bonds and letters of credit required for new contracts, third party debt service obligations may have important consequences to the Company, the covenants contained in NFI ULC's senior credit facility and Subordinated Note indenture could impact the ability of the Company to fund distributions and take certain other actions, interest rates could change substantially and materially impact the Company's profitability, the dependence on limited sources of supply, the timely supply of materials from suppliers, the possibility of fluctuations in the market prices of the pension plan investments and discount rates used in the actuarial calculations will impact pension expense and funding requirements, the Company's profitability and performance can be adversely affected by increases in raw material and component costs, the availability of labour could have an impact on production levels, the ability of the Company to successfully execute strategic plans and maintain profitability and risks related to acquisitions. The Issuer cautions that this list of factors is not exhaustive. These factors and other risks and uncertainties are discussed in the Issuer's press releases and materials filed with the Canadian securities regulatory authorities and are available on SEDAR at www.sedar.com.

Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, investors cannot be assured that actual results will be consistent with these forward-looking statements, and the differences may be material. These forward-looking statements are made as of the date of this MD&A and the Issuer and the Company assume no obligation to update or revise them to reflect new events or circumstances, except as required by applicable securities laws.

DEFINITIONS OF EBITDA, ADJUSTED EBITDA AND DISTRIBUTABLE CASH

References to "EBITDA" are to earnings before interest expense, income taxes, depreciation and amortization; losses or gains on disposal of property, plant and equipment; unrealized foreign exchange losses or gains on non-current monetary items and forward foreign exchange contracts; fair value adjustments to other liabilities – the former Class B Shares and Class C Shares; fair value adjustment to embedded derivatives; non-cash impact of embedded derivatives and distributions on the former Class B Shares and Class C Shares. References to "Adjusted EBITDA" are to EBITDA after adjusting for: the effects of certain non-recurring and/or non-operations related items that have impacted the business and are not expected to recur, including business acquisition related costs, warranty expense assumed from the ISE Corporation bankruptcy, fair market value adjustments to inventory, prepaid expenses, deferred revenue and accounts payables and accrued liabilities resulting from purchase accounting for the August 19, 2005 Acquisition (as described in note 1 of the consolidated financial statements of NFL Holdings for the period ended December 31, 2006), the 2007 Offering related costs (as described in note 1(b) of the consolidated financial statements of NFI for Fiscal 2008), the transaction related costs for the April 10, 2008 offering and related transactions (as described in note 1(a) of the consolidated financial statements of NFI for Fiscal 2008) (the "April 2008 Offering"), the transaction related costs for the September 3, 2008 offering and related transactions (the "September 2008 Offering", together with the April 2008 Offering, the "2008 Offerings") (described in note 1(a) of the consolidated financial statements of NFI for Fiscal 2008) and the Retained Interest Conversion and related transactions costs (described in note 1(a) of the consolidated financial statements of NFI for the 52-week period ended January 2, 2011 ("Fiscal 2010"). The Retained Interest Conversion, the 2008 Offerings and the 2007 Offering are referred to herein as the "Follow-on Offerings".

Management believes EBITDA, Adjusted EBITDA, Distributable Cash (as defined below) and Distributable Cash Per Unit are useful measures in evaluating the performance of the Company and/or the Issuer. "Distributable Cash" means cash flows from operations adjusted for changes in non-cash working capital items, and effect of foreign currency rate on cash and increased for withholding taxes related to capital transactions, defined benefit funding, distributions on the former Class B Shares and Class C Shares, costs related to the Follow-on Offerings, business acquisition related costs, warranty expense assumed from ISE bankruptcy, fair market value adjustment to inventory, fair market value adjustment to prepaid expenses, proceeds on sale of redundant assets, interest on Subordinated Notes forming part of IDSs and decreased for defined benefit expense, maintenance capital expenditures, fair market value adjustment to deferred revenue, fair market value adjustment to accounts payable and accrued liabilities and principal payments on capital leases.

However, EBITDA, Adjusted EBITDA and Distributable Cash are not recognized earnings measures and do not have standardized meanings prescribed by IFRS. Readers of this MD&A are cautioned that EBITDA, Adjusted EBITDA and Distributable Cash should not be construed as an alternative to net earnings or loss determined in accordance with IFRS as an indicator of the Company's and/or the Issuer's performance or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. A reconciliation of net earnings and cash flow to EBITDA and Adjusted EBITDA, based on the Company's Financial Statements, has been provided under the heading "Reconciliation of Net Earnings to EBITDA and Adjusted EBITDA" and "Reconciliation of Cash Flow to EBITDA and Adjusted EBITDA", respectively. A reconciliation of Distributable Cash to cash flows from operations is provided under the heading "Summary of Distributable Cash".

The Issuer's method of calculating EBITDA, Adjusted EBITDA, Distributable Cash and Distributable Cash Per Unit may differ materially from the methods used by other issuers and, accordingly, may not be comparable to similarly titled measures used by other issuers. Distributable Cash is not assured, and the actual amount received by holders of IDSs will depend on, among other things, the Company's financial performance, debt covenants and obligations, working capital requirements, future capital requirements and the deductibility for U.S. federal income tax purposes of interest payments on the Subordinated Notes, all of which are susceptible to a number of risks, as described in the Issuer's public filings available on SEDAR at www.sedar.com.

Business Overview

New Flyer is the leading manufacturer of heavy-duty transit buses in the United States and Canada and the leading provider of aftermarket parts and support. The Company operates three manufacturing facilities in Winnipeg, MB, St. Cloud, MN and Crookston, MN (all ISO 9001, ISO 14001 and OHSAS 18001 certified), as well as a bus interior parts manufacturing facility in Elkhart, Indiana. The Company also has three parts distribution centers in Winnipeg, MB, Erlanger, KY and Fresno, CA. With a skilled workforce of over 2,000 employees, New Flyer is the technology leader in the heavy-duty transit bus market, offering the broadest and most advanced product line in the industry. New Flyer's mission statement is: To deliver the best bus value and support for life.

Industry Overview

Heavy-Duty Transit market

Heavy-duty transit buses are the backbone of intra-city urban public transportation systems throughout the United States and Canada. Municipal and other local transit authorities are the principal purchasers of heavy-duty transit buses and their fleets consist of vehicles that are generally between 30 and 60 feet in length in high and low floor configurations with seating capacity for up to 65 passengers. These buses operate in arduous stop-and-go conditions, often for up to 16 hours a day, seven days a week. Heavy-duty transit buses use a variety of propulsion systems in addition to diesel, including diesel or gasoline electric hybrid systems, compressed natural gas ("CNG") or liquid natural gas ("LNG") systems, zero emission electric trolleys and select hydrogen fuel cell hybrid systems. There are development efforts being undertaken in the industry by certain suppliers, including New Flyer, to produce an all-electric propulsion system for use in transit buses. There continues to be a trend based on congested cities and environmental concerns for the expansion of transit services and for the exploitation of new technologies to enhance transit's "green" potential.

Recent Ridership Trends

As a result of the economic downturn and increased unemployment levels in the Unites States, ridership has declined during 2009 and 2010 (it is estimated that 60% of transit trips are employment-related). According to APTA, U.S. transit bus ridership declined 1.9% in the 4th quarter of 2010 year over year and declined 2.4% in 2010 over 2009, indicating that the rate of decline may be slowing. During late February and early March, 2011, U.S. gasoline prices increased and APTA has reported that transit systems are experiencing slight increases in ridership.

In Canada, the Canadian Urban Transit Association reports that ridership increased 2.8% in the first half of 2010 compared to the same period the previous year.

Demand for Heavy-Duty Transit Buses

Bus manufacturers have some forward order visibility due to the fleet planning, budgeting and funding application processes its customers undertake in order to purchase new vehicles. New buses are generally ordered six to twelve months in advance of delivery, and because the funds for base order bus purchases under procurements are generally approved and allocated at the time the base order is made, cancellations are rare.

The U.S. recession has had a delayed impact on the transit industry as local tax revenues fell dramatically and budgets for many transit agencies were cut. As a result, many agencies reduced their operations and services by cutting routes and laying off employees, which resulted in buses becoming idle, thereby deferring their replacement. Other agencies have met the funding challenges by reducing planned new bus purchases. As a result of these events, management estimated new orders in 2010 from transit agencies declined by 10 to 15 percent, thereby greatly increasing competition among manufacturers for a lower demand of buses. While most transit bus procurements are, at face value, driven by technical specification requirements, purchasing decisions are ultimately made on price. Management notes that bus competition among the major bus manufacturers in late 2010 and early 2011 has been the most intense in several years with extremely aggressive pricing in response to public tenders as all manufacturers strive to keep their production facilities operating. It is the Company's experience that the vast majority of buses are procured by public tender.

The Company tracks a "bid universe" or "pipeline" of anticipated heavy-duty transit bus order activity within a five-year horizon. This includes forecasted orders, active bids, active option quotations to be submitted and pending bid awards and option orders. While the pipeline has remained relatively stable over the past several years, it largely reflects the cumulative anticipated needs of the universe of transit bus customers, rather than funded opportunities. Management estimates there are approximately 13,000 EUs in New Flyer's current pipeline. However, management believes that although the transit bus potential remains strong in the near term, many customers are deferring procurements and as a result, management expects further price pressure on future business in the near and medium terms.

Competitive Environment

Price, engineering to customer specification, styling, product quality, on-time delivery, established track record, strong customer relationships and financial strength are key factors in winning bus manufacturing contracts. The competitive landscape of the industry in the United States and Canada is limited to five major competitors including: New Flyer, Gillig Corporation, North American Bus Industries ("NABI"), Orion and Nova Bus.

Gillig Corporation is privately owned by Henry Crown & Co., NABI is privately owned by Cerberus Capital Management, L.P., Orion is owned by Daimler Trucks North America and Nova Bus is owned by Volvo Truck and Bus of Sweden. New Flyer is the only publicly-traded bus manufacturer in the United States and Canada.

With several competitors scrambling to fill open production slots in 2011, two competitors allegedly operating on reduced or alternating work weeks, and one competitor announcing an extended spring/summer shutdown at their bus shell manufacturing facility, management expects continued pricing pressure in 2011.

Competition from outside North America has been limited for many years as international manufacturers are challenged to meet Buy America regulations, which forces customers to apply to the FTA for special waivers.

Aftermarket Parts

The aftermarket parts market consists of approximately 90% government municipalities and transit authorities and 10% private operators. The complexity of the technologies integrated into transit buses, coupled with transit authorities' constrained operating budgets as well as high bus utilization levels, continue to drive demand for aftermarket parts and support. The Company's leading share of in-service heavy-duty transit buses provides recurring demand and significant opportunity to grow its aftermarket parts and service business. The Company provides parts and support for buses manufactured by both New Flyer and its competitors. Management believes that New Flyer provides the most comprehensive aftermarket support of all manufacturers in the industry today. Competitors in the aftermarket parts business include competing bus manufacturers, bus parts distributors and parts divisions of related industries (e.g., heavy-duty trucks).

As a result of the economic recession, management now estimates that the total U.S. and Canadian market size has stabilized at approximately $700.0 million on an annual basis. U.S. transit agencies continue to experience challenges in obtaining operating funds and this continues to have an impact on the overall U.S. aftermarket parts market. The total Canadian aftermarket parts market continues to display growth at a rate slightly higher than inflation.

The Company's aftermarket parts order backlog has improved from a 12-month low that occurred at the beginning of the fourth quarter of 2010. Aftermarket parts orders received during 2011 Q1 exceeded orders received in each of the previous three fiscal quarters.

2011 First Quarter in Review

Overall, funding for 2011 in the U.S. market is expected to be as tough or tougher than 2010. Funding challenges for transit agencies in the United States have been affected by the political events that nearly led to a shutdown of the U.S. federal government in early April 2011. While certain types of transit grants were eliminated or greatly reduced in the resulting compromise budget, the main budget categories from which transit bus procurements are funded were largely left intact at 2010 levels.

U.S. funding concerns are more real and immediate at the state and local levels, and with no reliable data available, management is unable to predict the impact on the quantity of new buses that may be purchased in 2011.

Operating funds for U.S. transit agencies have been severely impacted by the recession and have resulted in many transit agencies cutting service, raising fares, and laying off employees. State tax collections in the United States improved in 2010 over 2009, with an increase of 7.8% in the fourth quarter. This is the fourth consecutive quarter U.S. States have reported growth and, preliminary data for January and February 2011 show growth of 9.5% compared to the same months in 2010. However, local tax revenues declined by 2.3% in the fourth quarter when compared to 2009; this is driven by the impact of declining house prices on property tax collections. Experts feel this lag is somewhat typical.

During 2011 Q1, New Flyer order activity consisted of 208 buses or 218 EUs, with a total value of $93.0 million. This order activity comprises new firm and new option orders of 131 buses (131 EUs) and exercised options of 77 buses (87 EUs). The order intake level was 39% higher than during the 13-week period ended April 4, 2010 ("2010 Q1"), being 218 EUs compared to 156 EUs. Total orders received over the last four quarters, at 2,814 EUs, was 2% higher than the 2,752 EUs ordered during Fiscal 2010. This allowed the Company to replenish some of the total order backlog (including firm orders and options) to approximately $3.54 billion (representing 8,339 EUs) as at April 3, 2011 which decreased 3.6% compared to approximately $3.68 billion (representing 8,712 EUs) as at January 2, 2011.

Bus deliveries in 2011 Q1 were 468 EUs and, as a result, new firm orders and options received in the quarter of 131 EUs represent 28% of buses delivered during the quarter. Management advises that order activity is not consistent on a quarterly basis and therefore believes the ratio of orders received to deliveries is more meaningful, compared on an annual basis. Over the past four quarters the Company has delivered 2,038 EUs and received new orders (firm and options) totaling 2,045 EUs. The annual ratio of new orders received to deliveries has approximated 1.0 to 1.0 for the past three quarters. In comparison, the annual ratio of new orders received to deliveries was approximately 0.75 to 1.0 in the first half of Fiscal 2010.

New Flyer expects to have to bid aggressively to maintain its industry leading backlog, but also expects to continue its focus on converting options.

Some of the available options are unable to be assigned to third-party agencies because of local procurement rules, and certain options are unlikely to ever be exercised because they represent models that are not widely used in the industry. In addition, certain agencies secure options based on specific growth and replacement plans which may or may not crystallize. For these reasons, in some cases options are neither exercised nor assigned to third parties, but are simply allowed to expire by the transit agency. During 2011 Q1 options for 36 EUs expired. Although historically options have represented a significant source of revenue for the Company, there can be no assurance that customers will continue to exercise or assign these options in the future. New Flyer continues to monitor and actively promote the conversion of options to customers; and where not required by the transit authorities holding the options, they are actively brokered to other customers.

Part of the Company's aftermarket long-term strategy is to implement warehousing and distribution capability to provide industry-leading response times to all of New Flyer's customers in Canada and the United States. As a result, there are currently three parts distribution centers strategically located to significantly improve response times and minimize transportation costs to our customers, which provides a strategic advantage over our competitors. The Company is planning to open an Ontario Parts Distribution Center ("PDC") in the Greater Toronto and Hamilton Area (the "GTHA") in 2011. New Flyer has supplied transit buses to this region for over

forty years. There are currently over 9,300 transit buses operated by over 65 transit agencies within a 300 kilometer radius of the GTHA (from Ottawa to Detroit), of which nearly one-third were manufactured by New Flyer. Management believes that establishing a PDC in the region will improve New Flyer's response time for service parts, enhance parts availability and fill rates, and is expected to enable the Company to better support its customers in the areas of supply and inventory services. The Ontario PDC will become the fourth in the New Flyer PDC network and follows on the successful launch and implementation of a Customer Service and Overhaul Center that New Flyer established in Arnprior, ON in 2010.

Also in the Canadian marketplace, New Flyer has recently appointed A. Girardin Inc. of Drummondville, Quebec, as the exclusive distributor of New Flyer buses in the Province of Quebec, including distribution of spare parts, training, publications and other services to those customers. Girardin, a manufacturer of school and shuttle buses and distributor for several other brands of medium-duty buses, has also been appointed as New Flyer's exclusive distributor of transit buses to a range of private bus operators across Canada. This strategic partnership will provide the Company greater opportunity to sell and support its products, particularly New Flyer's state-of-the-art Xcelsior model, to customers that it may not have been able to reach in the past.

New Flyer continues to anticipate rationalization and consolidation in the Canadian and United States bus manufacturing industry to occur in the coming years and is committed to continue as the leading market player. Management remains committed to its product development and optimization plan to fully migrate to the Xcelsior next generation bus platform by 2013. Further, the Company continues to explore ways to expand its approach to selling parts and service solutions in an effort to assist customers in reducing their total costs of bus operation and ownership. Management continues to expect New Flyer's bus delivery market share to increase in 2011.

Fiscal 2011 First Quarter Financial Results

The Company achieved consolidated revenue of $214.3 million for 2011 Q1 a decrease of 11.8% compared to consolidated revenue for 2010 Q1 of $243.0 million. Bus manufacturing revenue in 2011 Q1 of $187.5 million decreased by 13.3% compared to bus manufacturing revenue of $216.1 million in 2010 Q1, primarily resulting from a 16.0% decrease in average selling price per EU to $400.1 thousand in 2011 Q1 from $477.1 thousand in 2010 Q1, offset partially by a $4.5 million favourable foreign currency impact. This decreased average selling price per equivalent unit is attributable to a 2011 Q1 sales mix comprised of a very high percentage of articulated buses when compared to 2010 Q1, as the total bus deliveries of 468 EUs in 2011 Q1 increased 3.3% compared to 2010 Q1 deliveries of 453 EUs. By contrast, 2011 Q1 consolidated revenue for aftermarket operations of $26.9 million remained consistent when compared to $26.9 million in 2010 Q1 during a time when the current U.S. market has contracted approximately 7%. The aftermarket operations revenue experienced $0.5 million of lower volumes during 2011 Q1 when compared to 2010 Q1; however this was offset by $0.5 million of favourable foreign currency impact due to the appreciation in the value of the Canadian dollar against the U.S. dollar when comparing the two periods. The company has orders for 13 used buses (26 EU's) for which the refurbishment work is underway. Revenue will be recognized the same as new buses, upon delivery.

Consolidated Adjusted EBITDA for 2011 Q1 totaled $22.0 million compared to $21.0 million in 2010 Q1, which represents an increase of 4.8%. 2011 Q1 bus manufacturing operations Adjusted EBITDA of $16.4 million (8.7% of revenue) increased by 12.7% compared to bus manufacturing operations Adjusted EBITDA of $14.5 million (6.7% of revenue) in 2010 Q1. The increase in 2011 Q1 bus manufacturing operations is primarily due to a sales mix that included contract runs of higher average bus contract margins due to incremental supplier rebates of $2.5 million, $2.0 million favourable foreign currency impact offset by $0.9 million of severance costs relating to recent employment reductions in March 2011. Management expects an annualized fixed cost reduction for both bus and aftermarket operations of approximately $6.9 million as a result of the reduction in labour force. 2011 Q1 aftermarket operations Adjusted EBITDA of $5.6 million (20.9% of revenue) decreased by 13.0% compared to $6.5 million (24.1% of revenue) in 2010 Q1, primarily due to lower profit margins in the current period compared to 2010 Q1. The lower margins are due to pricing pressure as a result of the current aftermarket industry contraction.

The Company reported a net loss of $6.4 million in 2011 Q1 representing an improvement compared to a net loss of $13.9 million in 2010 Q1, primarily as a result of lower non-cash charges of $8.0 million and the elimination of $1.6 million of distributions on the former Class B Shares and Class C Shares due to the Retained Interest Conversion, offset by the increase in income taxes in the current period. The increase in income taxes of $1.7 million in 2011 Q1 as compared to 2010 Q1 was primarily a result of a decrease of $1.2 million in future income taxes recovered. Current taxes will begin to trend higher in the future as the Company's foreign tax credit pool (generated prior to the initial public offering in 2005) has become depleted.

The Company generated Distributable Cash of C$14.3 million during 2011 Q1 and declared distributions of C$14.5 million, which represents a 2011 Q1 payout ratio of 101.1%. By comparison, in 2010 Q1, the Company generated Distributable Cash of C$14.7 million and declared distributions of C$14.6 million, resulting in a payout ratio of 99.3%. The decrease in 2011 Q1 Distributable Cash is primarily a result of the strengthening Canadian dollar during 2011 Q1 as compared to the U.S. dollar and an increase in current tax, which is expected to continue to be comparably higher in the future, increasing pressure on the payout ratios. Cumulatively, since the Issuer's initial public offering on August 19, 2005 (the "IPO"), the Company has generated Distributable Cash of C$374.9 million and has declared distributions of $302.6 million, resulting in a cumulative surplus of C$72.3 million and a payout ratio of 80.7%. The Company has made monthly distributions of C$0.0975 per IDS since July, 2007.

During 2011 Q1, the Company decreased its cash by $55.7 million primarily due to increasing the investment in non-cash working capital by $52.8 million, primarily as a result of increased accounts receivables, inventories and a reduction in deferred revenue offset by an increase in accounts payable. The increase in accounts receivable and reduction in deferred revenue is associated with the completion of deliveries of remaining city of Ottawa buses during 2011 Q1 as this contract had favourable payment terms in comparison to other contracts. The increase in inventory and accounts payable is primarily a result of the change in product mix in production. Total units in inventory increased to 218 EUs from 209 EUs as a result of an increase in finished goods in transit to the customer while work-in-process levels were reduced to 200 EUs which represents a reduction of 6 EUs during 2011 Q1.

The April 3, 2011 liquidity position of $67.8 million is comprised of cash of $17.8 million and a $50.0 million secured revolving credit facility. As at April 3, 2011, there were no borrowings under this secured facility. Management believes that these funds will provide the Company with sufficient liquidity and capital resources to meet its current and future financial obligations as they come due, as well as provide funds for its financing requirements, capital expenditures and other needs for the foreseeable future.

Management continues to actively execute on its strategic plan to grow and diversify the business. In addition to the planned opening of the Ontario PDC and appointing A. Girardin Inc. as a distributor focused on Quebec, management and advisors have been proactively engaged in investigating a number of potential acquisitions and strategic relationships, including assessing the overall structure and dividend policy of the Company in relation to these opportunities and the ongoing needs of the business.

The company's Payout Ratio over the last two quarters has been above 100% - territory that is not acceptable. The company is proactively pursuing opportunities that are in the best interests of shareholders, customers, and employees.

SELECTED FINANCIAL AND OPERATING INFORMATION

The following selected consolidated financial and operating information of the Company has been derived from and should be read in conjunction with the historical financial statements of the Company. All information in the table below has been restated in accordance with IFRS other than financial information with respect to the 53-week period ended January 3, 2010 ("Fiscal 2009") as it was prepared using Canadian GAAP.

QUARTERLY AND ANNUAL FINANCIAL INFORMATION
(unaudited, US dollars in thousands, except for deliveries in equivalent units and per share figures)

Fiscal Period	Quarter	Revenue	Earnings from Operations	Net earnings (loss)	EBITDA[1]	Adjusted EBITDA[1]	Earnings (loss) per share[3]
2011	Q1	$ 214,344	$ 14,991	$ (6,361)	$ 20,943	$ 21,989	(0.13)
	Total	**$ 214,344**	**$ 14,991**	**$ (6,361)**	**$ 20,943**	**$ 21,989**	**(0.13)**
2010	Q4	$ 204,791	$ 12,727	$ (16,458)	$ 10,287	$ 18,971	(0.38)
	Q3	255,447	18,827	(3,384)	24,933	24,938	(0.07)
	Q2	280,540	26,360	36,171	32,259	32,386	0.76
	Q1	242,980	15,310	(13,928)	20,987	20,987	(0.29)
	Total	**$ 983,758**	**$ 73,224**	**$ 2,401**	**$ 88,466**	**$ 97,282**	**0.02**
2009[5]	Q4	$ 249,386	$ 19,249	$ (11,301)	$ 24,959	$ 24,959	(0.24)
	Q3	303,619	23,664	(9,190)	29,356	29,356	(0.19)
	Q2	273,512	17,423	(14,670)	22,682	22,682	(0.31)
	Q1	273,349	17,151	4,781	23,073	23,073	0.10
	Total	**$ 1,099,866**	**$ 77,487**	**$ (30,380)**	**$ 100,070**	**$ 100,070**	**(0.64)**

Fiscal Period	Quarter	Inventory, Beginning (equivalent units)[2]	New Line Entry (equivalent units)[2]	Deliveries (equivalent units)[2]	Inventory, Ending (equivalent units)[2]	Inventory comprised of: Work in process (equivalent units)[2]	Finished goods (equivalent units)[2] & [4]
2011	Q1	209	477	468	218	200	18
	Total	**209**	**477**	**468**	**218**	**200**	**18**
2010	Q4	241	467	499	209	206	3
	Q3	262	505	526	241	236	5
	Q2	299	508	545	262	235	27
	Q1	245	507	453	299	287	12
	Total	**245**	**1,987**	**2,023**	**209**	**206**	**3**
2009	Q4	320	415	490	245	237	8
	Q3	403	533	616	320	309	11
	Q2	341	620	558	403	375	28
	Q1	284	650	593	341	300	41
	Total	**284**	**2,218**	**2,257**	**245**	**237**	**8**

COMPARISON OF FIRST QUARTER AND TRAILING TWELVE MONTHS RESULTS

(Unaudited, US dollars in thousands, except for deliveries in equivalent units)

	13-Weeks Ended April 3, 2011	13-Weeks Ended April 4, 2010	52-Weeks Ended April 3, 2011	52-Weeks Ended April 4, 2010[5]
Statement of Earnings Data				
Revenue				
Canada	$ 85,459	$ 48,911	$ 306,491	$ 264,789
U.S.	101,999	167,196	542,942	698,538
Bus manufacturing operations	187,458	216,107	849,433	963,327
Canada	9,129	10,010	36,704	37,188
U.S.	17,757	16,863	68,985	68,982
Aftermarket operations	26,886	26,873	105,689	106,170
Total revenue	$ 214,344	$ 242,980	$ 955,122	$ 1,069,497
Earnings from operations	$ 14,991	$ 15,310	$ 72,905	$ 76,854
Earnings before interest and income taxes	9,439	1,531	55,423	19,487
Net (loss) earnings	(6,361)	(13,928)	7,829	(48,121)
EBITDA[1]	20,943	20,987	88,422	99,192
Adjusted EBITDA[1]				
Bus manufacturing operations including realized foreign exchange losses/gains	16,366	14,524	75,066	74,971
Aftermarket operations	5,623	6,463	23,218	24,221
Total Adjusted EBITDA[1]	$ 21,989	$ 20,987	$ 98,284	$ 99,192
Other Data (unaudited)				
Canada	253	103	879	598
U.S.	215	350	1,159	1,519
Total deliveries (equivalent units)[2]	468	453	2,038	2,117
Total capital expenditures	$ 1,415	$ 1,707	$ 7,460	$ 9,861
New options awarded	$ 15,555	$ —	$ 393,588	$ 497,415
New firm orders awarded	47,828	5,308	414,229	160,588
Exercised options	30,172	65,073	310,044	513,699
Total firm orders	$ 78,000	$ 70,381	$ 724,273	$ 674,287

(Unaudited, US dollars in thousands)	April 3, 2011		January 2, 2011		January 3, 2010	
Selected Balance Sheet Data						
Total assets	$ 871,453		$ 848,933		$ 899,943	
Long-term financial liabilities	562,628		549,865		516,425	
Other Data (unaudited)		Equivalent Units[2]		Equivalent Units[2]		Equivalent Units[2]
Firm orders - USA	$ 676,381	1,483	$ 694,141	1,518	$ 884,347	1,876
Firm orders – Canada	60,202	134	138,517	379	93,407	206
Total firm orders	736,583	1,617	832,658	1,897	977,754	2,082
Options – USA	2,724,941	6,525	2,761,784	6,610	2,653,326	6,365
Options - Canada	82,848	197	83,713	205	217,042	543
Total options	2,807,789	6,722	2,845,497	6,815	2,870,368	6,908
Total Backlog	$ 3,544,372	8,339	$ 3,678,155	8,712	$ 3,848,122	8,990

Equivalent Units in Backlog (unaudited)	13 Weeks Ended April 3, 2011		52 Weeks Ended January 2, 2011		53 Weeks Ended January 3, 2010	
	Firm orders	Options	Firm orders	Options	Firm orders	Options
Beginning of period	1,897	6,815	2,082	6,908	2,498	7,033
New orders	102	29	1,013	914	444	1,402
Options exercised	86	(86)	825	(825)	1,397	(1,397)
Shipments	(468)	—	(2,023)	—	(2,257)	—
Cancelled/expired	—	(36)	—	(182)	—	(130)
End of period	1,617	6,722	1,897	6,815	2,082	6,908

Options included in the backlog expire, if not exercised, as follows:

2011	1,294
2012	1,351
2013	2,691
2014	527
2015	830
2016	29
Total options	6,722

Notes:

(1) EBITDA and Adjusted EBITDA are not recognized earnings measures and do not have standardized meanings prescribed by IFRS. Therefore, EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See “Definitions of EBITDA, Adjusted EBITDA and Distributable Cash” above. Management believes that EBITDA and Adjusted EBITDA are useful supplemental measures in evaluating performance of the Company and/or the Issuer.

(2) One equivalent unit represents one 30-foot, 35-foot or 40-foot heavy-duty transit bus. One 60-foot articulated bus represents two equivalent units.

(3) Earnings per share are those of NFI.

(4) Finished goods are comprised of completed buses ready for delivery and bus deliveries in-transit.

(5) Financial information was prepared prior to transition to IFRS and has not been restated.

RECONCILIATION OF NET EARNINGS TO EBITDA AND ADJUSTED EBITDA

Because the Company distributes substantially all of its cash on an ongoing basis, subject to certain restrictions, management believes that EBITDA and Adjusted EBITDA are important measures in evaluating the historical performance of the Company. However, EBITDA and Adjusted EBITDA are not recognized earnings measures under IFRS and do not have standardized meanings prescribed by IFRS. Accordingly, EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Readers of this MD&A are cautioned that EBITDA and Adjusted EBITDA should not be construed as alternatives to net earnings or loss determined in accordance with IFRS as indicators of the Company's performance, or cash flows from operating activities as a measure of liquidity and cash flow. The Company defines and has computed EBITDA and Adjusted EBITDA as described under “Definitions of EBITDA, Adjusted EBITDA and Distributable Cash” above. The following tables reconcile net earnings or losses and cash flow from operations to EBITDA and Adjusted EBITDA based on the historical consolidated financial statements of the Company for the periods indicated.

(Unaudited, US dollars in thousands)	13-Weeks Ended April 3, 2011	13-Weeks Ended April 4, 2010	52-Weeks Ended April 3, 2011	52-Weeks Ended April 4, 2010[7]
Net (loss) earnings	$ (6,361)	$ (13,928)	$ 7,829	$ (48,121)
Addback[1]				
Income taxes	2,637	912	(4,562)	15,100
Interest expense	13,163	12,921	52,157	50,153
Amortization	5,952	5,677	24,333	22,470
Gain on disposal of property, plant and equipment	—	(16)	(7)	(230)
Non-cash impact of embedded derivative	—	—	—	(132)
Fair value adjustment to embedded derivatives	(3,667)	—	(3,667)	449
Fair value adjustment to other liabilities – Class B Shares and Class C Shares	—	1,945	(1,923)	4,839
Distributions on Class B Shares and Class C Shares	—	1,626	—	2,355
Unrealized foreign exchange loss on non-current monetary items and forward foreign exchange contracts	9,219	11,850	14,262	52,309
EBITDA[2]	20,943	20,987	88,422	99,192
Business acquisition related cost [3]	—	—	132	—
Warranty expense assumed from ISE bankruptcy [6]	—	—	8,684	—
Costs associated with assessing strategic and corporate initiatives[8]	1,046	—	1,046	—
Adjusted EBITDA (US$) [2]	$ 21,989	$ 20,987	$ 98,284	$ 99,192
Adjusted EBITDA translated to C$ at an average foreign exchange rate[5]	$ 21,576	$ 21,921	$ 100,545	$ 107,888

RECONCILIATION OF CASH FLOW TO EBITDA AND ADJUSTED EBITDA

(Unaudited, US dollars in thousands)	13-Weeks Ended April 3, 2011	13-Weeks Ended April 4, 2010	52-Weeks Ended April 3, 2011	52-Weeks Ended April 4, 2010[7]
Cash provided by operations	$ (50,437)	$ (27,142)	$ 47,574	$ 32,702
Addback[1]				
Changes in non-cash working capital items	52,753	31,418	(15,855)	2,653
Defined benefit funding	1,133	636	4,721	3,689
Defined benefit expense	(456)	(416)	(1,431)	(1,430)
Interest expense	13,350	12,300	51,657	47,948
Distributions on Class B Shares and Class C Shares	—	1,626	—	2,355
Warranty expense assumed from ISE bankruptcy	—	—	(8,684)	—
Foreign exchange (loss) gain on cash held in foreign currency	1,760	283	3,480	553
Current income taxes[4]	2,840	2,282	6,960	10,722
EBITDA[2]	20,943	20,987	88,422	99,192
Business acquisition related cost [3]	—	—	132	—
Warranty expense assumed from ISE bankruptcy [6]	—	—	8,684	—
Costs associated with assessing strategic and corporate initiatives[8]	1,046	—	1,046	—
Adjusted EBITDA (US$) [2]	$ 21,989	$ 20,987	$ 98,284	$ 99,192
Adjusted EBITDA translated to C$ at an average foreign exchange rate[5]	$ 21,576	$ 21,921	$ 100,545	$ 107,888

Notes:

(1) Addback items are derived from the historical financial statements of the Company.

(2) EBITDA and Adjusted EBITDA are not recognized earnings measures and do not have standardized meanings prescribed by IFRS. Therefore, EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See “Definitions of EBITDA, Adjusted EBITDA and Distributable Cash” above. Management believes that EBITDA and Adjusted EBITDA are useful supplemental measures in evaluating performance of the Company and/or the Issuer.

(3) Normalized to exclude non-recurring expenses related to the acquisition of certain assets and business of TCB Industries, LLC.

(4) As a result of the Company’s multinational corporate structure, current income taxes are subject to high degrees of volatility due to the mix of U.S. and Canadian earnings.

(5) U.S. exchange rate (C$ per US$) is the weighted average exchange rate applicable to the payment of distributions for the period, which rate is used for comparability to the calculation of Distributable Cash (C$).

(6) Normalized to exclude the non-recurring item related to warranty expense assumed as a result of ISE’s bankruptcy.

(7) Financial information was prepared prior to transition to IFRS and has not been restated.

(8) Normalized to exclude non-recurring expenses related to the costs of assessing strategic and corporate initiatives.

SUMMARY OF DISTRIBUTABLE CASH

Management believes that Distributable Cash is a useful metric in measuring the financial performance of the Company and in determining the maximum amount of cash available for distribution to IDS holders. The following is a reconciliation of cash flows realized from operating activities (an IFRS measure) to Distributable Cash (a non-IFRS measure) based on the Company's historical financial statements. See "Definitions of EBITDA, Adjusted EBITDA and Distributable Cash".

	13-Weeks Ended April 3, 2011	13-Weeks Ended April 4, 2010	52-Weeks Ended April 3, 2011	52-Weeks Ended April 4, 2010[16]	Cumulative since IPO on August 19, 2005[16]
Cash provided by operations	$ (50,437)	$ (27,142)	$ 47,574	$ 32,702	$ 58,725
Changes in non-cash working capital items[6]	52,753	31,418	(15,855)	2,653	56,674
Capital adjustments					
Maintenance capital expenditures[7]	(434)	(692)	(3,094)	(2,397)	(12,027)
Principal portion of capital lease payments	(678)	(589)	(2,567)	(1,916)	(8,114)
Non-recurring adjustments					
Follow-on Offerings related costs	—	—	—	—	963
Proceeds from sale of redundant assets	—	16	7	341	747
Fair market value adjustments [8]	—	—	—	—	15,713
Business acquisition related cost [15]	—	—	132	—	132
Costs associated with assessing strategic and corporate initiatives[17]	1,046	—	1,046	—	1,046
Withholding taxes[9]	—	—	—	—	9,111
Entity specific adjustments					
Distributions on Class B Shares and Class C Shares[10]	—	1,626	—	2,355	65,100
Interest on Subordinated Notes forming part of IDSs[10]	9,900	8,918	37,408	33,510	143,491
Defined benefit funding[11]	1,133	636	4,721	3,689	18,520
Defined benefit expense[11]	(456)	(416)	(1,431)	(1,430)	(9,062)
Foreign exchange gain on cash held in foreign currency[12]	1,760	283	3,480	553	5,216
Distributable Cash (US$)[1]	14,587	14,058	71,421	70,060	346,235
U.S. exchange rate[2]	0.9812	1.0445	1.0230	1.0877	1.0828
Distributable Cash[1] (C$)	**14,313**	**14,683**	**73,064**	**76,202**	**374,910**
Distributable Cash per unit[14] (C$)	0.29	0.29	1.48	1.53	7.18
Summary of Cash Distributions:[3]					
Interest on Subordinated Notes forming part of IDSs (C$)	9,572	9,159	38,023	36,636	154,352
Dividends on Common Shares forming part of IDSs (C$)	4,896	4,683	19,441	18,732	76,451
Dividends on Class C Shares (C$)	—	1,398	—	2,042	69,575
Dividends on Class B Shares (C$)	—	316	—	461	7,305
Net loan (repaid from) advanced to New Flyer LLC (C$)[13]	—	(969)	—	(81)	(95)
Foreign currency impact on dividends on Class B Shares and Class C Shares (C$)[4]	—	—	—	—	(4,956)
Total Cash Distributions (C$)	**14,468**	**14,587**	**57,464**	**57,790**	**302,632**
Total Cash Distributions per unit[14] (C$)	0.29	0.29	1.16	1.16	5.80
(Shortfall) excess of Distributable Cash (C$)	**(155)**	**96**	**15,600**	**18,412**	**72,278**
(Shortfall) excess of Distributable Cash per unit[14] (C$)	$ (0.00)	$ 0.00	$ 0.32	$ 0.37	$ 1.38
Payout ratio	101.1%	99.3%	78.6%	75.8%	80.7%

Since the IPO, the Company has generated cumulative Distributable Cash in excess of total distributions made, as shown in the table above under the heading "Summary of Distributable Cash". The boards of directors of the Issuer determine the level of distributions made in accordance with the applicable distribution policies. The Issuer has maintained the level of distributions since the third quarter of the Company's 2007 fiscal year. The boards of directors of the Issuer determines the current level of distributions with a view to ensuring the long term sustainability of distributions and establishing such reserves as appropriate for potential future investment and other corporate purposes.

	13-Weeks Ended April 3, 2011	13-Weeks Ended April 4, 2010[16]	52-Weeks Ended April 3, 2011	52-Weeks Ended April 4, 2010[16]	Cumulative since IPO on August 19, 2005
Total Cash Distributions (C$):					
Interest on Subordinated Notes (C$)	0.1936	0.1936	0.7744	0.7744	4.3506
Dividends on Common Shares (C$)	0.0989	0.0989	0.3956	0.3956	2.0996
Total Distribution (C$)[3]	0.2925	0.2925	1.1700	1.1700	6.4502
Issued and outstanding Common Shares including IDSs [5]	49,475,279	47,323,100	48,937,234	47,323,100	35,821,777
Dividends per Class C Share (C$):[3]					
Preferential Dividend (C$)	—	0.2834	—	0.4499	2.2347
Residual Dividend (C$)	—	0.3971	—	0.5441	1.8523
Total Cash Dividend (C$)	—	0.6805	—	0.9940	4.0870
Issued and outstanding Class C Shares[5]	—	2,053,657	513,414	2,053,657	14,813,912
Dividends per Class B Share (C$):[3]					
Preferential Dividend (C$)	—	0.2834	—	0.4499	2.2347
Residual Dividend (C$)	—	0.3971	—	0.5441	1.8523
Total Cash Dividend (C$)	—	0.6805	—	0.9940	4.0870
Issued and outstanding Class B Shares[5]	—	463,875	115,969	463,875	1,555,501
Total of all issued and outstanding Shares including IDSs[5]	49,475,279	49,840,632	49,566,617	49,840,632	52,191,190

Notes:

(1) Distributable Cash is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. Therefore, Distributable Cash may not be comparable to similar measures presented by other issuers. See "Definitions of EBITDA, Adjusted EBITDA and Distributable Cash" above.

(2) U.S. exchange rate (C$ per US$) is the weighted average exchange rate applicable to the payment of distributions for the period.

(3) The Issuer declared distributions of C$1.17 per IDS cumulatively during the 52 weeks ended April 3, 2011. Distributions on IDSs are paid on or before the 15th day of each month (or the next business day if such day is not a business day) to securityholders of record on the last business day of the previous month. On June 24, 2010, the Company announced the completion of the Retained Interest Conversion. As at April 3, 2011, NFL Holdings had only one common share issued and outstanding, which share was held by NFI.

(4) Represents the foreign currency impact of the difference between the 1.2038 C$ per US$ exchange rate used to calculate the U.S. dollar dividends on the former Class B Shares and Class C Shares held by New Flyer Transit L.P. and the actual weighted average exchange rate at the time the payments were made.

(5) Issued and outstanding figure is calculated using the weighted average over the period.

(6) Changes in non-cash working capital are excluded from the calculation of Distributable Cash as these temporary fluctuations are managed through the Company's $50.0 million revolving credit facility which is available for use to fund general corporate requirements including working capital requirements, subject to borrowing capacity restrictions.

(7) Maintenance capital expenditures represent cash expenditures required to maintain normal operations which exclude growth capital expenditures that are intended to enhance future earnings.

(8) As a result of the revaluation of assets and liabilities resulting from the 2007 Offering, $15.7 million of the excess purchase price was allocated to inventory, prepaid expenses, deferred revenue and accounts payables and accruals as a fair market value adjustment, resulting in a subsequent non-cash charge to operating costs and expenses upon culmination of the earnings process.

(9) Payment of withholding taxes related to the period prior to NFI's acquisition of NFL Holdings on August 19, 2005.

(10) Distributions on the former Class B Shares and Class C Shares and the interest on Subordinated Notes forming part of the IDSs are deducted in the determination of cash from operating activities under IFRS. These amounts need to be added back to calculate the Distributable Cash available to fund all of the Company's cash distributions.

(11) The cash effect of the difference between the defined benefit expense and funding is included in the determination of cash from operating activities. This cash effect is excluded in the determination of Distributable Cash as management believes that the defined benefit expense amount provides a more appropriate measure, as the defined benefit funding can be impacted by special payments to reduce the unfunded pension liability.

(12) Foreign exchange gain (loss) on cash held in foreign currency is excluded in the determination of cash from operating activities under IFRS, however, because it is a cash item it should be included in the calculation of Distributable Cash.

(13) New Flyer implemented a procedure pursuant to which certain inter-company loans were made to support dividend payments by NFI on its common shares and in lieu of dividends to New Flyer LLC on its Class B Shares and Class C Shares when regular dividends payable by NFL Holdings were deferred. All inter-company loans with New Flyer LLC were repaid in full. Subsequent to the Retained Interest Conversion, New Flyer LLC was dissolved.

(14) Per unit calculations for Distributable Cash (C$), Cash Distributions and Excess of Distributable Cash are determined by dividing these amounts by the total of all issued and outstanding common shares including IDSs using the weighted average over the period.

(15) Normalized to exclude non-recurring expenses related to the acquisition of certain assets and business of TCB Industries, LLC.

(16) Financial information was prepared prior to transition to IFRS and has not been restated.

(17) Normalized to exclude non-recurring expenses related to the costs of assessing strategic and corporate initiatives.

The following shows the relationship between the Company's cash flows from operating activities, net earnings, Distributable Cash, and distributions made for the periods indicated. All information in the table below has been restated in accordance with IFRS other than financial information with respect to Fiscal 2009 as it was prepared using Canadian GAAP.

(Unaudited, US dollars in thousands)	13-Weeks Ended April 3, 2011	13-Weeks Ended April 4, 2010	Fiscal 2010	Fiscal 2009
A. Cash flows from operating activities (excluding interest on Subordinated Notes forming part of IDSs and distributions on Class B Shares and Class C Shares)	$ (40,537)	$ (16,598)	$ 108,924	$ 60,112
B. Cash flows from operating activities before changes in non-cash working capital items (excluding interest on Subordinated Notes forming part of IDSs and distributions on Class B Shares and Class C Shares)	12,216	14,820	72,209	71,411
C. Net (loss) earnings (excluding interest on Subordinated Notes forming part of IDSs and distributions on Class B Shares and Class C Shares)	3,539	(3,384)	40,450	3,913
D. Earnings from operations (excluding interest on Subordinated Notes forming part of IDSs and distributions on Class B Shares and Class C Shares)	14,991	15,310	73,225	77,487
E. Distributable Cash	14,587	14,058	70,895	69,994
F. Actual cash distributions paid or payable relating to the period	14,745	13,966	55,587	50,986
G. (Shortfall) excess of cash flows from operating activities (adjusted as described above) over cash distributions paid (A – F)	(55,282)	(30,564)	53,337	9,126
H. (Shortfall) excess of cash flows from operating activities before changes in non-cash working capital items (adjusted as described above) over cash distributions paid (B – F)	(2,529)	854	16,622	20,425
I. Shortfall of net (loss) earnings (adjusted as described above) over cash distributions paid (C – F)	(11,206)	(17,350)	(15,137)	(47,073)
J Excess of earnings from operations (adjusted as described above) over cash distributions paid (D – F)	246	1,344	17,276	26,501
K. (Shortfall) excess of Distributable Cash over cash distributions paid (E – F)	(158)	92	15,308	19,008

The Company generates its Distributable Cash from its cash flows from operations and its earnings from operations and management expects that this will continue to be the case for the foreseeable future. As shown in the table above, cash flows from operating activities are significantly impacted by changes in non-cash working capital. As well, cash flows from operating activities and net loss/earnings are significantly affected by the volatility of current income taxes, which in turn produces temporary fluctuations in the determination of Distributable Cash. As a result, the alternative measures of (i) cash flows from operating activities before changes in non-cash working capital items and (ii) earnings from operations are also shown in the table. A detailed reconciliation of Distributable Cash to cash flows from operating activities is shown in the table above under the heading "Summary of Distributable Cash". A detailed description of the non-cash charges affecting net earnings is contained in the chart below under the heading "Earnings before interest and income taxes and other items".

Currency Impact on the Company's Reported Results

The Company's Financial Statements are presented in U.S. dollars. New Flyer operates in both the United States and Canada and, as a result, its combined reported results are impacted by fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar. These fluctuations can represent a significant component of the variations in reported results from one period to the next. The Company's Adjusted EBITDA (which is reported in U.S. dollars) is also exposed to foreign currency fluctuations between reporting periods. If the exchange rate of the Canadian dollar compared to the U.S. dollar depreciates, then the related Adjusted EBITDA that is generated in Canadian dollars would be materially adversely affected as compared to the level determined with the prevailing exchange rate during the comparable 2010 reporting period. However, Distributable Cash and the corresponding payout ratio are less likely to be affected by Canadian/U.S. dollar exchange rate fluctuations given that distributions on IDSs are paid in Canadian dollars and the Company has other significant Canadian dollar denominated payment requirements which are not included in

Adjusted EBITDA, including interest on the Separate Subordinated Notes and current income taxes. For that reason, management has made it a conscious strategy to mitigate foreign currency exposure based on net cash flow rather than Adjusted EBITDA.

As at April 3, 2011, 8.2% of the Company's firm order backlog consisted of orders representing Canadian dollar-denominated revenue. Based on this current backlog position and the Company's historically stable Canadian dollar-denominated operating costs, management expects the Company to generate a net Canadian dollar cash outflow during the 52-week period ended January 1, 2012 ("Fiscal 2011") primarily as a result of the higher percentage of U.S. dollar denominated orders in the Company's backlog, which is a reversal of the Canadian dollar exposure the Company experienced in Fiscal 2010.

The settlements of the forward contracts were recorded as realized foreign exchange gains or losses in net earnings for the reported periods. Management expects that the forward contracts should effectively avoid foreign exchange losses and produce a net zero cash impact. However, due to timing of the contracts and the realized foreign exchange gains that occur from the settlement of working capital transactions during the period, there may be gains or losses reported in any given reporting period as the Company has elected not to use hedge accounting. During 2011 Q1, the realized foreign exchange gains of $0.7 million was comprised of $1.1 million gain on settlement of foreign exchange contracts and a $0.4 million foreign currency losses due to translation of Canadian dollar-denominated operations and distributions.

At April 3, 2011, the Company had $63.6 million foreign exchange forward contracts to buy Canadian dollars at a weighted average agreed Canadian/U.S. dollar foreign exchange rate of $0.9719 that expired in April 2011. The related asset of $0.5 million is recorded on the statement of financial position as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts has been recorded in the consolidated statements of comprehensive loss.

Fiscal and Interim Periods

The Company's Fiscal 2011 period is divided in quarters. The following table summarizes the number of weeks in the fiscal and interim periods presented for the Company:

	Period from January 3, 2011 to January 1, 2012 (Fiscal 2011)		**Period from January 4, 2010 to January 2, 2011 (Fiscal 2010)**	
	Period End Date	# of Weeks	Period End Date	# of Weeks
Quarter 1	April 3, 2011	13	April 4, 2010	13
Quarter 2	July 3, 2011	13	July 4, 2010	13
Quarter 3	October 2, 2011	13	October 3, 2010	13
Quarter 4	January 1, 2012	13	January 2, 2011	13
Fiscal year	January 1, 2012	52	January 2, 2011	52

Results of Operations

The Company's operations are divided into two business segments: bus manufacturing operations and aftermarket operations. The discussion below with respect to revenue, operating costs and expenses and earnings from operations has been divided between the bus manufacturing and aftermarket operations segments.

(Unaudited, US dollars in thousands)	2011 Q1 (13-Weeks)	2010 Q1 (13-Weeks)
Bus Manufacturing Revenue	$ 187,458	$ 216,107
Aftermarket Revenue	26,886	26,873
Total Revenue	$ 214,344	$ 242,980
Earnings from operations	14,991	15,310
Earnings before interest and income taxes	9,439	1,531
Loss before income taxes	(3,724)	(13,016)
Net loss for the period	(6,361)	(13,928)

Revenue

The consolidated revenue for 2011 Q1 of $214.3 million decreased 11.8% from the consolidated revenue for 2010 Q1 of $243.0 million. Bus manufacturing revenue in 2011 Q1 of $187.5 million decreased by 13.3% compared to bus manufacturing revenue of $216.1 million in 2010 Q1, primarily resulting from a 16.0% decrease in average selling price per EU to $400.1 thousand in 2011 Q1 from $477.1 thousand in 2010 Q1.This decrease is primarily due to decreased average selling price per equivalent unit and is attributable to a 2011 Q1 sales mix comprised of a very high percentage of articulated buses when compared to 2010 Q1, as the total bus deliveries of 468 EUs in 2011 Q1 increased 3.3% compared to 2010 Q1 deliveries of 453 EUs. By contrast, 2011 Q1 consolidated revenue for aftermarket operations of $26.9 million remained consistent when compared to $26.9 million in 2010 Q1 during a time when the current U.S. market has contracted approximately 7%. The aftermarket operations revenue experienced $0.5 million of lower volumes during 2011 Q1 when compared to 2010 Q1; however this was offset by $0.5 million of favourable foreign currency impact due to the appreciation in the value of the Canadian dollar against the U.S. dollar when comparing the two periods. The company has orders for 13 used buses (26 EU's) for which the refurbishment work is underway. Revenue will be recognized the same as new buses, upon delivery.

Cost of sales

The consolidated cost of sales for 2011 Q1 of $187.5 million decreased by 12.6% from 2010 Q1 consolidated cost of sales of $214.5 million.

Costs of sales from bus manufacturing operations consist of direct contract costs and manufacturing overhead. The cost of sales from bus manufacturing operations for 2011 Q1 were $168.8 million compared to $196.5 million in 2010 Q1, a decrease of 14.1%. This decrease in cost of sales primarily relates to sales mix comprised of lower costing buses, as evidenced by the 16.0% reduction in selling price when comparing the two periods and incremental supplier rebates of $2.5 million.

The cost of sales from aftermarket operations were $18.7 million in 2011 Q1 compared to $18.0 million in 2010 Q1, representing an increase of 3.9%, primarily due to a mix of higher cost products being sold when comparing the two periods.

Selling, general and administrative costs and other expenses

The consolidated selling, general and administrative costs and other expenses for 2011 Q1 of $12.5 million is comparable with $12.5 million in such costs incurred in 2010 Q1. The 2011 Q1 costs include $1.0 of incremental costs to assess strategic and corporate initiatives and $0.9 million dollars of severance costs relating to the March 2011 employment reductions.

Realized foreign exchange loss (gain)

In 2011 Q1, the Company recognized a net realized gain of $0.7 million compared with a net realized loss of $0.6 million in 2010 Q1. The increase in realized foreign exchange gain is primarily as a result of the favourable settlement of foreign exchange transactions.

Earnings from operations

The consolidated earnings from operations for 2011 Q1 in the amount of $15.0 million (7.0% of revenue) decreased 1.7% compared to earnings from operations in 2010 Q1 of $15.3 million (6.3% of revenue).

The earnings from bus manufacturing operations (including amortization and depreciation) for 2011 Q1 were $9.4 million compared to earnings of $8.8 million for 2010 Q1 (5.0% and 4.1%, respectively, of bus manufacturing revenue). The increase in earnings from bus manufacturing operations during 2011 Q1 is a result of incremental vendor rebates of $2.5 million and a $2.0 million favourable foreign currency impact offset by $0.9 million of severance costs and $1.0 of incremental costs to assess strategic and corporate initiatives.

The earnings from aftermarket operations of $5.6 million in 2011 Q1 decreased by 13.0% compared to 2010 Q1 earnings of $6.5 million. 2011 Q1 operations margin of 20.9% decreased as compared to 24.1% in 2010 Q1.

Unrealized foreign exchange loss

Unrealized foreign currency losses arise primarily from the revaluation of the Canadian dollar-denominated long-term debt. In 2011 Q1, the Company recognized a net unrealized loss of $9.2 million compared to a net unrealized loss of $11.9 million in 2010 Q1. These results consist of the following:

(Unaudited, US dollars in thousands)	2011 Q1	2010 Q1
Unrealized loss on Canadian-denominated long-term debt	$ 9,899	$ 12,179
Unrealized gain on forward foreign exchanges contracts	(466)	(248)
Unrealized gain on other non-monetary assets/liabilities	(214)	(81)
	$ 9,219	$ 11,850

Earnings before interest and income taxes and other items (EBIT)

In 2011 Q1, the Company recorded earnings before interest and income taxes of $9.4 million compared to earnings before interest and income taxes of $1.5 million in 2010 Q1. Earnings before interest and income taxes have been impacted by non-cash items as follows:

(Unaudited, US dollars in thousands)	2011 Q1	2010 Q1
Non-cash charges (recovery):		
Fair value adjustment to other liabilities, Class B Shares and Class C Shares	$ —	$ 1,945
Fair value adjustment to embedded derivatives	(3,667)	—
Unrealized foreign exchange loss	9,219	11,850
Gain on disposition of property, plant and equipment	—	(16)
Amortization	5,952	5,677
Total non-cash charges:	$ 11,504	$ 19,456

Absent these non-cash charges/recoveries, the 2011 Q1 EBIT would have been $21.0 million compared to $21.0 million in 2010 Q1.

Interest expense (including distributions on the former Class B Shares and Class C Shares)

The interest expense for 2011 Q1 was $13.2 million, a decrease of compared to $14.5 million in 2010 Q1, the individual elements included: a $1.1 million increase in the interest on the Subordinated Notes due to the issuance of additional IDSs which was offset by and $0.8 million of fair value adjustment on the interest rate swap and a $1.6 million decrease in distributions declared on the former Class B Shares and Class C Shares in 2010 Q1, as these shares were previously cancelled as part of the Retained Interest Conversion in June 2010.

Loss before income taxes

Loss before income taxes for 2011 Q1 was $3.7 million compared to loss before income taxes of $13.0 million in 2010 Q1. The difference in the loss before income taxes between these periods result primarily from the non-cash charges as described in the preceding table and the $1.6 million decrease in distributions declared on the former Class B Shares and Class C Shares in 2010 Q1.

Income taxes

Current income taxes are comprised of Canadian federal and provincial corporate income taxes, withholding taxes and U.S. federal and state income taxes whereas, future income taxes are primarily comprised of U.S. federal income taxes derived as a reduction of the future income tax asset related to the utilization of the U.S. federal tax credit pool.

The income tax expense for 2011 Q1 was $2.6 million, which consists of $2.8 million of current income tax expense and $0.2 million of future income tax recovered. In comparison, the income tax expense for 2010 Q1 was $0.9 million, which consists of $2.3 million of current income tax expense and $1.4 million of future income tax recovered.

This increase in income tax when comparing the two periods, consisted primarily of a $0.5 million increase in current income taxes and a $1.4 million decrease in future income taxes recovered. The reason for the relatively large decrease in future taxes recovered are primarily a result of recognizing previously unrecognized future tax assets. Management expects that because of the consumption of foreign tax credit pool (which was generated prior to the initial public offering in 2005), current taxes will continue to increase with a corresponding decrease in future taxes.

Net (loss) earnings

The Company reported a net loss of $6.4 million in 2011 Q1 compared to net loss of $13.9 million in 2010 Q1. The decrease in net loss in 2011 Q1 is primarily attributable to the decrease in loss before income taxes partially offset by an increase in income taxes as noted above. The Company's net earnings (losses) can be subject to a high degree of volatility from one fiscal period to the next as a result of non-cash accounting adjustments and income taxes.

Liquidity and Capital Resources

Liquidity risk arises from the Company's financial obligations and in the management of its assets, liabilities and capital structure. This risk is managed by regularly evaluating the liquid financial resources to fund current and long-term obligations and to meet the Company's capital commitments in a cost-effective manner.

The main factors that affect liquidity include sales mix, production levels, cash production costs, working capital requirements, capital expenditure requirements, scheduled repayments of long-term debt obligations including funding requirements of the Company's pension plans, credit capacity and expected future debt and equity capital market conditions.

The Company's liquidity requirements are met through a variety of sources, including: cash on hand, cash generated from operations, existing credit facilities, leases, and debt and equity capital markets.

As a result of the contract solicitation process in the bus manufacturing industry, bus purchase contracts are customer specific and contain varied terms and conditions, including terms relating to the timing of payments made under such contracts. As such, the timing of the payments of the Company's accounts receivable is not always consistent or predictable, which may result in the Company drawing on its revolving credit facility in order to meet its working capital requirements. Management believes that there is a growing trend by transit authorities to move away from milestone payments that were traditionally seen as regular business terms and requesting payment on final delivery.

During 2011 Q1, cash decreased by $55.7 million primarily due to increasing the investment in non-cash working capital by $52.8 million, primarily as a result of increased accounts receivables, inventories and a reduction in deferred revenue offset by an increase in accounts payable. The increase in accounts receivable and reduction in deferred revenue is associated with the completion of deliveries of remaining city of Ottawa buses during 2011 Q1 as this contract had favourable payment terms in comparison to other contracts. The increase in inventory and accounts payable is primarily a result of the change in product mix in production. Total units in inventory increased to 218 EUs from 209 EUs as a result of an increase in finished goods in transit to the customer while work-in-process levels were reduced to 200 EUs which represents a reduction of 6 EUs during 2011 Q1.

The April 3, 2011 liquidity position of $67.8 million is comprised of cash of $17.8 million and a $50.0 million secured revolving credit facility. As at April 3, 2011, there were no borrowings under this secured facility. Management believes that these funds will provide the Company with sufficient liquidity and capital resources to meet its current and future financial obligations as they come due, as well as provide funds for its financing requirements, capital expenditures and other needs for the foreseeable future.

The Company generated a shortfall of Distributable Cash of C$0.2 million during 2011 Q1 compared to an excess of C$0.1 million in Distributable Cash for 2010 Q1 primarily due to the strengthening of the Canadian dollar as compared to the U.S. dollar during 2011 Q1 and its negative impact on Distributable Cash and an increase in current tax, which management expects to continue to be comparably higher in the future, increasing pressure on the payout ratios. The Company has achieved a cumulative excess of Distributable Cash of C$72.3 million since the IPO.

As at April 3, 2011, the Company was in compliance in all material respects with the financial covenants in its credit facility.

The results of the financial covenants tests as of such date are as follows:

(Unaudited)	**April 3, 2011**	January 2, 2011
Senior Leverage Ratio (must be less than 2.25)	0.81	0.27
Total Leverage Ratio (must be less than 4.75)	4.18	3.82
Fixed Charge Coverage Ratio (must be greater than 1.10)	1.57	1.47

Interest rate risk

The Company entered into an interest rate swap with an initial notional principal amount of $90.0 million which fixes the interest rate on the Company's term credit facility at 2.61% plus the applicable credit spread per the swap agreement, maturing on April 24, 2012, to manage interest rate risk relating to potentially adverse changes in the LIBOR rate on the term credit facility. The fair value of the interest rate swap of $2.1 million was recorded on the balance sheet as a derivative financial instruments liability at April 3, 2011 ($2.5 million at January 2, 2011) and the change in fair value has been recorded as interest expense for the reported period.

Credit risk

Financial instruments which potentially subject the Company to credit risk and concentrations of credit risk consist principally of cash, accounts receivable and derivatives. Management has assessed that the credit risk associated with accounts receivable is mitigated by the significant proportion for which the counterparties are well-established transit authorities. Additionally, the U.S. federal government funds a substantial portion of U.S. customer payments, as 80% of the capital cost of new buses typically come from the U.S. Federal Transportation Administration, while the remaining 20% comes from state and municipal sources. The maximum exposure to the risk of credit for accounts receivables corresponds to their book value. Historically, the Company has experienced nominal bad debts as a result of the customer base being principally comprised of municipal and other local transit authorities.

The carrying amount of accounts receivable are reduced through the use of an allowance account and the amount of the loss is recognized in the earnings statement within sales, general administrative costs and other expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for accounts receivable. Subsequent recoveries of amounts previously written off are credited against sales, general administrative costs and other expenses in the earnings statement.

The following table details the aging of the Company's receivables and related allowance for doubtful accounts are as follows:

	April 3, 2011	**January 2, 2011**
Current, including holdbacks	$ 89,721	$ 51,317
Past due amounts but not impaired		
1 – 60 days	15,215	4,494
Greater than 60 days	8,051	4,919
Less: Allowance for doubtful accounts	(36)	(21)
Total accounts receivables, net	$ 112,951	$ 60,709

The counterparties to the Company's derivatives are significant financial institutions. The Company could be exposed to loss in the event of non-performance by the counterparty. However, credit ratings and concentration of risk of the financial institutions are monitored on a regular basis.

Commitments and Contractual Obligations

Commitments

The following are the contractual maturities of the undiscounted cash flows of New Flyer's certain non-current financial liabilities and leases as at April 3, 2011:

(US dollars in thousands)	Total	2011	2012	2013	2014	2015	Post 2015
Term Credit Facility	$ 95,000	$ 3,350	$ 91,650	$ —	$ —	$ —	$ —
Subordinated Notes included in IDS issue	651,090	29,788	39,718	39,718	39,718	39,718	462,430
Separate Subordinated Notes	103,863	4,704	6,272	6,272	6,272	6,272	74,071
Finance leases	6,594	2,313	2,442	1,320	506	13	—
Operating leases	27,759	2,477	2,424	1,974	1,813	1,784	17,287
	$ 884,306	$ 42,632	$ 142,506	$ 49,284	$ 48,309	$ 47,787	$ 553,788

As at April 3, 2011, outstanding surety bonds guaranteed by the Company amounted to $21.5 million, representing a decrease compared to $28.6 million at January 2, 2011. The Company has not recorded a liability under these guarantees, as management believes that no material events of default exist under any applicable contracts with customers.

Under its senior credit facility, the Company has established a letter of credit facility of $40.0 million. As at April 3, 2011, letters of credit amounting to $15.1 million remained outstanding under the letter of credit facility as security for the following contractual obligations of the Company:

(Unaudited, US dollars in thousands)	
Collateral to secure operating facility leases	$ 272
Collateral to secure surety facilities	3,599
Customer performance guarantees	10,072
Collateral in support of self-insured workers' compensation obligations	1,130

Performance Unit Plan

The Performance Unit Plan expense under the Former PUP (as defined below) and the New PUP (as defined below) totaled $0.4 million for 2011 Q1 as compared to $1.6 million recorded in 2010 Q1.

The original Performance Unit Plan ("the "Former PUP") was implemented for eligible officers and management employees in 2008 and fully replaced the Company's Long Term Incentive Plan as at January 4, 2010. A new Performance Unit Plan (the "New PUP") was implemented effective January 1, 2011, which replaces the Former PUP for future periods. The purpose of the Former PUP and New PUP is to attract, motivate and reward officers and senior managers of the Company by making a significant portion of their long-term incentive compensation dependent on the Company's financial performance. Awards under the Former PUP and the New PUP are made in the form of phantom performance units, which generally vest at the end of a three-year period, and will be settled in cash. Compensation expense is recognized on a straight-line basis over the three-year period, adjusted to reflect an average trading unit price and the Company's performance at each balance sheet date, based on the best available estimates of the outcome of the performance conditions. The Company's estimated obligation under the Former PUP and New PUP that is due within the next twelve months is recorded as a current liability.

Cash Flow

The cash flows of the Company are summarized as follows:

(Unaudited, US dollars in thousands)	**2011 Q1**	**2010 Q1**
Cash from operating activities before changes in non-cash working capital items	$ 2,316	$ 4,276
Changes in non-cash working capital items	(52,753)	(31,418)
Cash flow from operating activities	(50,437)	(27,142)
Cash flow from financing activities	(5,340)	(4,507)
Cash flow from investing activities	(1,654)	(1,691)

Cash flows from operating activities

The 2011 Q1 net operating cash outflow of $50.4 million is the result of an increase of $52.8 million in non-cash working capital and a $2.3 million of net cash earnings, compared to 2010 Q1 net operating cash outflow of $27.1 million which resulted from $4.3 million of net cash earnings and an increase of $31.4 million in non-cash working capital. The 2011 Q1 non-cash working capital changes that are primarily responsible for the significant inflow during the period are due to increased accounts receivables, inventories and recognizing deferred revenue associated with the delivery of remaining city of Ottawa buses offset by increased accounts payables.

Cash flow from financing activities

The Company's financing activities resulted in a net cash outflow of $5.3 million and $4.5 million for 2011 Q1 and 2010 Q1, respectively. The increased outflow primarily relates to $0.3 million of increased dividends paid as a result of the Retained Interest Conversion and the $0.5 million received from related parties in 2010 Q1.

Cash flow from investing activities

2011 Q1 investing activities resulted in a net cash outflow of $1.7 million compared to $1.7 million in 2010 Q1. 2011 Q1 investing activities also includes the acquisition of $0.6 million of intellectual property pursuant to a license agreement with Bluways USA, Inc.

The composition of the capital expenditures was as follows:

(Unaudited, US dollars in thousands)	**2011 Q1**	**2010 Q1**
Capital expenditures	$ 1,415	$ 1,707
Less capital expenditures funded by capital leases	(392)	—
Cash capital expenditure	1,023	1,707
Comprised of:		
Maintenance capital expenditures	434	692
Growth capital expenditures	589	1,015
	1,023	1,707

Effect of transition to IFRS on financial performance relating to the adoption of different accounting standards

Onerous Contract provision

Under IFRS, provisions for loss-making executory contracts (onerous contracts) are recognized as a present obligation immediately whereas under Canadian GAAP the Company would recognize a related loss much later, at the time when inventory would be measured at the lower of cost and net realizable value. This change in accounting standards results in early recognition of losses associated with certain of the Company's sale contracts. Such provisions were not recognized under Canadian GAAP.

Translation of foreign non-monetary assets and liabilities from local currency to functional currency.

Canadian GAAP - No future tax asset or future tax liability is recognized for exchange gains or losses with respect to the translation of foreign non-monetary assets and liabilities into the functional currency using historical rates for an integrated foreign operation.

IFRS - No temporary difference exemption exists for foreign non-monetary assets and liabilities that are re-measured from the local currency into the functional currency using historical exchange rates. The Company must recognize a deferred tax asset or deferred tax liability for the temporary differences.

Actuarial gains and losses on defined benefit pension

Canadian GAAP - Actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized on a systematic and consistent basis, subject to a minimum required amortization based on a "corridor" approach. The "corridor" was 10% of the greater of the accrued benefit obligation at the beginning of the year and the fair value of plan assets at the beginning of the year. This excess of 10% is amortized as a component of pension expense on a straight-line basis over the expected average service life of active participants. Actuarial gains and losses below the 10% corridor are deferred.

IFRS - The Company has elected to record net actuarial losses on defined benefit pension of $2,861 (net of income tax recovery of $1,724) as other comprehensive loss.

For a detailed description of the impact of the changes resulting from the transition to IFRS, see note 18 of NFI's 2011 Q1 interim condensed consolidated financial statements (including the reconciliations presented in such note).

Future Changes to Accounting Standards

The following recently issued accounting pronouncements represent a summary of the pronouncements that are likely to, or may at some future time, have an impact on the Company.

IFRS 7 Financial Instruments: Disclosures, Amendment regarding Disclosures on Transfer of Financial Assets:

This amendment requires that the Company provide the disclosures for all transferred financial assets that are not derecognized and for a continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. Management does not expect a material impact to the Financial Statements as a result of adopting this standard.

IFRS 9 Financial Instruments:

This standard replaces the current IAS 39 Financial Instruments Recognition and Measurement. The Company will start the application of IFRS 9 in the Financial Statements effective from January 1, 2013. Management has not yet evaluated the impact on the Financial Statements.

IAS 12 Income Tax, Amendment regarding Deferred Tax: Recovery of Underlying Asset:

The standard requires an entity to recognize a deferred tax asset or liability depending on the expected manner of recovery or settlement of the asset or liability and for which the tax base is not immediately apparent. The Company does not expect any impact to the Financial Statements as a result of adopting this standard.

Controls and Procedures

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining internal controls over financial reporting ("ICFR"), as defined under rules adopted by the Canadian Securities Administrators. ICFR were designed under the supervision of, and with the participation of, the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). The Company's ICFR are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes in accordance with generally accepted accounting principles. Management, under the supervision of the CEO and CFO, evaluated the design of the Company's ICFR as of January 2, 2011 in accordance with the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and concluded that the Company's ICFR was not effective due to the existence of a material weakness relating to accounting for income taxes. Management is continuing to explore additional internal control procedures to address this area of weakness. The relatively complex structure of the Company and its subsidiaries requires management, with the assistance of external consultants and accounting advisors, to evaluate non-routine and complex tax and accounting issues on a regular basis.

There have been no other changes in the Company's ICFR during the most recent interim period that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

ICFR, no matter how well designed, have inherent limitations. Therefore, ICFR can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

Disclosure Controls

Management is responsible for establishing and maintaining disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner and that information required to be disclosed is reported within time periods prescribed by applicable securities legislation. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Due to the existence of a material weakness in ICFR relating to accounting for income taxes, as noted above under "Internal Controls over Financial Reporting", the Company's CEO and CFO have concluded that disclosure controls and procedures as at January 2, 2011 were not effective as it relates to accounting for income taxes.

Interim Condensed Consolidated Financial Statements of

NEW FLYER INDUSTRIES INC.

April 3, 2011

(Unaudited)

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NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
April 3, 2011
(unaudited, in thousands of U.S. dollars except per share figures)

	13-Weeks Ended April 3, 2011	13-Weeks Ended April 4, 2010 (Note 18)
Revenue	$ 214,344	$ 242,980
Cost of sales	187,488	214,509
Gross profit	26,856	28,471
Sales, general and administration costs and other operating expenses	12,534	12,527
Foreign exchange (gain) loss	(669)	634
Earnings from operations	14,991	15,310
Unrealized foreign exchange loss on non-current monetary items	9,219	11,850
Gain on disposition of property, plant and equipment	—	(16)
Fair value adjustment to embedded derivatives	(3,667)	—
Fair value adjustment to other liabilities, Class B Shares and C Shares	—	1,945
Earnings before interest and income taxes	9,439	1,531
Finance costs		
Interest on long-term debt	13,017	11,942
Accretion in carrying value of long-term debt	239	212
Other interest and bank charges	333	358
Fair market value adjustment on interest rate swap	(426)	409
	13,163	12,921
Distributions on Class B Shares and Class C Shares	—	1,626
	13,163	14,547
Loss before income tax expense	(3,724)	(13,016)
Income tax expense		
Current income taxes	2,840	2,282
Deferred taxes (recovered)	(203)	(1,370)
	2,637	912
Net loss and comprehensive loss for the period	$ (6,361)	$ (13,928)
Net loss per share (basic and diluted) (note 9)	$ (0.13)	$ (0.29)

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

April 3, 2011

(unaudited, in thousands of U.S. dollars except per share figures)

	April 3, 2011	January 2, 2011	January 4, 2010 (Note 18)
Assets			
Current			
Cash	$ 17,792	$ 73,463	$ 30,696
Accounts receivable (note 3)	112,951	60,709	103,520
Inventories (note 4)	105,607	82,882	139,357
Prepaid expenses and deposits	4,621	5,196	5,679
Due from related party (note 14)	—	—	510
Derivative financial instruments (note 12c)	474	8	420
	241,445	222,258	280,182
Property, plant and equipment (note 5)	36,487	37,086	37,215
Goodwill and intangible assets (note 6)	556,355	559,711	574,491
Embedded derivative instruments (note 18g)	8,577	4,910	2,771
Deferred tax assets (note 7)	28,589	24,968	5,284
	$ 871,453	$ 848,933	$ 899,943
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 140,529	$ 95,008	$ 159,497
Income taxes payable	—	—	6,547
Deferred revenue	3,410	27,568	25,129
Provision for warranty costs (note 17)	42,325	42,641	31,409
Current portion of performance unit plan liability	4,119	4,142	—
Current portion of obligations under finance lease	2,680	2,596	2,590
Other liabilities, Class B Shares and Class C Shares	—	—	21,018
	193,063	171,955	246,190
Accrued benefit liability (note 11)	8,648	8,922	6,630
Obligations under finance lease	3,405	3,684	5,570
Performance unit plan liability	4,398	3,823	4,547
Deferred tax liabilities (note 7)	129,024	125,997	121,254
Long-term debt (note 8)	415,069	404,929	376,333
Derivative financial instruments (note 12c)	2,084	2,510	2,091
	755,691	721,820	762,615
Commitments and contingencies (note 15)			
Shareholders' equity			
Share capital (note 9)	226,338	226,338	217,469
Deficit	(107,715)	(96,364)	(80,141)
Accumulated other comprehensive loss	(2,861)	(2,861)	—
	115,762	127,113	137,328
	$ 871,453	$ 848,933	$ 899,943

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

Authorized for issue by the board of directors on May 12, 2011.

NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

April 3, 2011

(unaudited, in thousands of U.S. dollars except per share figures)

	Share Capital	Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity (Note 18)
Balance, January 4, 2010 (note 18)	$ **217,469**	$ **(80,141)**	$ **—**	$ **137,328**
Net loss and comprehensive loss for the period	—	(13,928)	—	(13,928)
Dividends declared on common shares	—	(4,491)	—	(4,491)
Balance, April 4, 2010	**217,469**	**(98,560)**	**—**	**118,909**
Shares issued in exchange for Class B Shares and Class C Shares of NFL Holdings on June 24, 2010	9,348	—	—	9,348
Share issuance costs	(479)	—	—	(479)
Net earnings and comprehensive loss for the period	—	16,329	(2,861)	13,468
Dividends declared on common shares	—	(14,133)	—	(14,133)
Balance, January 2, 2011	**226,338**	**(96,364)**	**(2,861)**	**127,113**
Net loss and comprehensive loss for the period	—	(6,361)	—	(6,361)
Dividends declared on common shares	—	(4,990)	—	(4,990)
Balance, April 3, 2011	$ **226,338**	$ **(107,715)**	$ **(2,861)**	$ **115,762**

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

April 3, 2011

(unaudited, in thousands of U.S. dollars except per share figures)

	13-Weeks Ended April 3, 2011	13-Weeks Ended April 4, 2010
Cash provided by (used in)		
Operating activities		
Net loss for the period	$ (6,361)	$ (13,928)
Depreciation of plant and equipment	1,965	1,711
Amortization of intangible assets	3,987	3,966
Gain on disposition of property, plant and equipment	—	(16)
Deferred taxes recovered	(203)	(1,370)
Unrealized loss on interest rate swap	(426)	409
Unrealized foreign exchange loss on non-current monetary items	9,219	11,850
Accretion in carrying value of long-term debt	239	212
Foreign exchange gain on cash held in foreign currency	(1,760)	(283)
Fair value adjustment to embedded derivatives	(3,667)	—
Fair value adjustment to other liabilities, Class B Shares and C Shares	—	1,945
Defined benefit expense (note 11)	456	416
Defined benefit funding (note 11)	(1,133)	(636)
Cash from operating activities before changes in non-cash working capital items	2,316	4,276
Changes in non-cash working capital items (note 10)	(52,753)	(31,418)
	(50,437)	(27,142)
Financing activities		
Repayment of obligations under finance lease	(678)	(589)
Due from related party – New Flyer LLC(held by management)(note 14)	—	510
Dividends paid	(4,662)	(4,428)
	(5,340)	(4,507)
Investing activities		
Proceeds on disposition of property, plant and equipment	—	16
Acquisition of intangibles	(631)	—
Acquisition of property, plant and equipment	(1,023)	(1,707)
	(1,654)	(1,691)
Effect of foreign exchange rate on cash	1,760	283
Decrease in cash	(55,671)	(33,057)
Cash — beginning of period	73,463	30,696
Cash (bank indebtedness) — end of period	$ 17,792	$ (2,361)

Supplemental cash flow information (note 10)

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

1. CORPORATE INFORMATION

New Flyer Industries Inc. ("NFI" or the "Company") was incorporated on June 16, 2005 under the laws of the Province of Ontario. The Company's principal place of business is Winnipeg, Manitoba, as well as two other manufacturing facilities located in St. Cloud, Minnesota and Crookston, Minnesota. The Company is the manufacturer of the New Flyer branded heavy-duty transit buses. The business also includes aftermarket parts and support including the sale of bus parts.

The Company has its primary listing on the Toronto Stock Exchange and is traded under the symbol "NFI.UN".

These financial statements were approved by the Company's board of directors on May 12, 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these unaudited interim condensed consolidated financial statements (the "Statements") are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Statement of Compliance

Statements are unaudited and have been prepared in accordance with IAS 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC"). These are the Company's first IFRS consolidated interim financial statements for part of the period covered by the Company's first IFRS consolidated annual financial statements for the year ending January 1, 2012. Previously, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP").

The Company's disclosures exceed the minimum requirements under IAS 34. The Company has elected to exceed the minimum requirements in order to present the Company's accounting policies in accordance with IFRS and the additional disclosures required under IFRS, which also highlight the changes from the Company's 2010 annual consolidated financial statements prepared in accordance with Canadian GAAP. During the fiscal year ended December 30, 2012 and subsequent periods, the Company may not provide the same amount of disclosure in the Company's interim consolidated financial statements under IFRS as in the annual consolidated financial statements which will be prepared in accordance with IFRS.

2.2 Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 2.18. The comparative figures presented in these consolidated financial statements are in accordance with IFRS and have not been audited.

The Company adopted IFRS in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards. The first date at which IFRS was applied was January 4, 2010. In accordance with IFRS, the Company has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented;
- retrospectively applied all effective IFRS standards as of January 2, 2011, as required; and
- applied certain optional exemptions and certain mandatory exceptions as applicable for first-time IFRS adopters.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company's consolidated financial statements were previously prepared in accordance with Canadian GAAP. Canadian GAAP differs in some areas from IFRS. In preparing these Statements, management has amended certain accounting, measurement and consolidation methods previously applied in the Canadian GAAP financial statements to comply with IFRS. Note 18 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on cash flows, equity and comprehensive income (loss). Note 18 includes a line-by-line reconciliations of the statement of financial position as at January 4, 2010, reconciliations of equity at January 4, 2010, April 4, 2010, January 2, 2011 and a reconciliation of the statement of comprehensive income (loss) for the 52-week period ended January 2, 2011 ("Fiscal 2010") and 13-week period ended April 4, 2010 ("2010 Q1").

These Statements were prepared on a going concern basis in accordance with IFRS, which requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.22.

2.3 Principles of consolidation

The financial statements of the Company include the accounts of all of its subsidiaries. The consolidated financial statements are those of NFI together with its subsidiaries, New Flyer Holdings, Inc. ("NFL Holdings"), Transit Holdings, Inc. ("THI"), New Flyer of America Inc. ("NFAI"), New Flyer Industries Canada ULC ("NFI ULC"), 1176846 Alberta ULC and TCB Enterprises, LLC.

Subsidiaries

Subsidiaries are entities over which the Company has control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefits from its activities. The Company holds 100% of the voting rights in, and therefore controls, its subsidiaries.

The effect of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries as follows:

- cost is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, and business acquisition related expenses are expensed as incurred;
- identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date;
- the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill; and
- if the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is re-assessed and any remaining difference is recognized directly in the statement of net loss and comprehensive loss.

Intercompany transactions between subsidiaries are eliminated on consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Operating segments

The Company's operating segments are organized around the markets it serves and are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The Chief Executive Officer has authority for resource allocation and assessment of the Company's performance and therefore acts as the CODM.

2.5 Foreign currency

The Statements are presented in U.S. dollars, which is the Company's presentation and functional currency.

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in the statement of net loss and comprehensive loss.

Foreign subsidiaries with monetary balances denominated in a currency other than U.S. dollars are translated at the period end rates of exchange, and the results of their operations are translated at average rates of exchange for the period. Non-monetary balances are translated at the exchange rate prevailing at the date of the transaction.

Foreign exchange gains and losses that relate to borrowings, non-current monetary items and forward foreign exchange contracts that are not permanent in nature are presented in the statement of net loss and comprehensive loss within "unrealized foreign exchange loss on non-current monetary items". All other foreign exchange gains and losses are presented in the statement of net loss and comprehensive loss within "foreign exchange gain or loss."

References to "$" are to U.S. dollars, references to "C$" are to Canadian dollars.

2.6 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of estimated returns and discounts, and after eliminating intercompany sales. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

In addition, when a single sales transaction requires the delivery of more than one product or service (multiple components), the revenue recognition criteria are applied to the separately identifiable components. A component is considered to be separately identifiable if the product or service delivered has stand-alone value to that customer and the fair value associated with the product or service can be measured reliably. The amount recognized as revenue for each component is the fair value of the element in relation to the fair value of the arrangement as a whole.

2.7 Employee future benefits

For defined benefit pension plans and other post-employment benefits, the net periodic pension expense is actuarially determined on an annual basis by independent actuaries using the projected unit credit method. The determination of benefit expense requires assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations and expected mortality. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Actual results will differ from results which are estimated based on assumptions. The vested portion of past service cost arising from plan amendments is recognized immediately in the statement of net loss and comprehensive loss. The unvested portion is amortized on a straight-line basis over the average remaining vesting period.

The asset or liability recognized in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unvested past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized immediately in other comprehensive income. For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan.

IFRIC 14 "*IAS 19 - The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*" addresses the application of paragraph 58 of IAS 19 which limits the measurement of a defined benefit asset to "the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan" plus cumulative unrecognized net losses and past service cost. IFRIC 14 provides guidance regarding (a) when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19, (b) how a minimum funding requirement might affect the availability of reductions in future contributions and (c) when a minimum funding requirement might give rise to a liability.

Payments to defined contribution plans are expensed as incurred, which is as the related employee service is rendered.

2.8 Share-based compensation plans

The Company operates a cash-settled share-based compensation plan under which it receives services from employees as consideration for cash payments.

For the cash-settled plan, the expense is determined based on the fair value of the liability at the end of the reporting period until the award is settled. At the end of each reporting period, the Company re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the statement of net loss and comprehensive loss.

2.9 Cash

Cash and cash equivalents comprise cash on hand, demand deposits and investments with an original maturity at the date of purchase of three months or less.

2.10 Trade receivables

Trade receivables are amounts due from customers from the rendering of services or sale of goods in the ordinary course of business. Trade receivables are classified as current assets if payment is due within one year or less. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost, less impairment.

The Company maintains an allowance for doubtful accounts and sales adjustments to provide for impairment of trade receivables. The expense relating to doubtful accounts is included within "Sales, general administration costs and other operating expenses" in the statement of net loss and comprehensive loss. Revenues are recorded net of sales adjustments.

2.11 Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Property, plant and equipment

Property, plant and equipment are recorded at cost reduced by applicable investment tax credits, less accumulated depreciation.

Depreciation is calculated at the following annual rates:

Building and building improvements	4% declining-balance basis
Machinery and equipment	25% declining-balance basis
Demonstrator buses	50% straight-line basis
Computer hardware and software	30% declining-balance basis
Office equipment	20% declining-balance basis

Depreciation of equipment under finance leases is provided for either on the basis and the rates as noted above or over the term of the finance lease.

Leases of property, plant and equipment on terms that transfer substantially all of the benefits and costs of ownership are accounted for as finance leases. All other leases of property, plant and equipment are accounted for as operating leases.

2.13 Intangible assets

Upon acquisition, identifiable intangible assets are recorded at fair value. The carrying values of all intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Additionally, the carrying values of identifiable intangible assets with indefinite lives are tested annually for impairment because they are not amortized. Impairment is determined by comparing the recoverable amount of such assets with their carrying amounts. The "New Flyer" trade name intangible asset (note 6) has been deemed to have an indefinite life. For purposes of impairment testing, the fair value of trade names is determined using an income approach, specifically the relief from royalties' method.

Intangible assets that have a finite life are amortized using the straight-line method over the estimated useful lives of the assets as follows:

Patents	5-12 years
Customer relationships	21 years

Identifiable intangible assets with finite lives are tested for impairment as described under "Impairment of non-financial assets" in note 2.15.

2.14 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing based on the level at which management monitors it. The Company's two operating segments constitute its two CGUs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Impairment of non-financial assets

Non-financial assets with finite lives are tested for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. In addition, long-lived assets that are not amortized are subject to an annual impairment assessment. Any impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount within earnings of continuing or discontinued operations, as appropriate. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows or CGUs. The Company evaluates impairment losses for potential reversals, other than goodwill impairment, when events or changes in circumstances warrant such consideration.

2.16 Provisions

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each statement of financial position date using the current discount rate. The increase in the provision due to passage of time is recognized as interest expense.

At the time of sale, a provision for warranty claims is recorded and charged against operations. This warranty provision is based upon management's best estimate of expected future warranty costs utilizing past claims experience. Actual warranty expenditures are charged against the provision as incurred.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

2.17 Long-term debt

Long-term debt is recognized initially at fair value, net of transaction costs incurred. Debt is subsequently stated at amortized cost with any difference between the proceeds and the amortized cost recognized in the statement of net loss and comprehensive loss over the term of the debt using the effective interest method.

Debt is classified as a current liability unless the Company has an unconditional right, subject to a debt covenant violation, to defer settlement for at least 12 months after the statement of financial position date.

2.18 Financial instruments

Financial assets

Purchases and sales of financial assets are recognized on the settlement date, which is the date on which the asset is delivered to or by the Company. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or were transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets are classified in the following categories at the time of initial recognition based on the purpose for which the financial assets were acquired:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets at fair value through profit or loss

Classification

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Assets in this category include "derivative financial instruments" and are classified as current assets in the statement of financial position.

Recognition and measurement

Investments are initially recognized, and subsequently carried, at fair value, with changes recognized in the statement of net loss and comprehensive loss. Transaction costs are expensed.

Loans and receivables

Classification

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the statement of financial position date, which are classified as non-current assets. Assets in this category include "accounts receivables" and "cash" and are classified as current assets in the statement of financial position.

Recognition and measurement

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

Financial liabilities

Financial liabilities primarily consist of payables, accruals, derivative financial instruments and indebtedness. Financial liabilities are initially measured at fair value and subsequently measured at amortized cost unless at fair value through profit and loss.

Derivative instruments

Derivatives are initially recognized at fair value on the date a contract is entered into and are subsequently remeasured at their fair value.

Certain derivative instruments, while providing effective economic hedges, are not designated as hedges for accounting purposes. Changes in the fair value of any derivatives that are not designated as hedges for accounting purposes are recognized within "finance costs" or "Unrealized foreign exchange loss on non-current monetary items" in the statement of net loss and comprehensive loss consistent with the underlying nature and purpose of the derivative instruments.

Embedded derivatives

The Company has embedded foreign currency derivatives in certain revenue and purchase contracts where the currency of the contract is different from the functional or local currencies of the parties involved. These derivatives are accounted for as separate instruments and are measured at fair value at each statement of financial position date using forward exchange market rates. The Company also has an embedded derivative associated with the Company's right to prepay the Subordinated Notes (discussed in note 8(a,b)). Changes in their fair values are recognized within the statement of net loss and comprehensive loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Taxation

Tax expense comprises current and deferred tax. Tax is recognized in the statement of net loss and comprehensive loss except to the extent it relates to items recognized directly in equity, in which case the related tax is recognized in equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the date of the statement of changes in financial position.

Deferred tax is accounted for using the liability approach and is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax is calculated based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply to the year of realization or settlement based on tax rates and laws enacted or substantively enacted at the date of the statement of financial position.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax liabilities are recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from: the initial recognition of goodwill; or the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

2.20 Investment tax credits

The Company is entitled to investment tax credits based on the number of qualified alternative fuel motor vehicles delivered, and also on a percentage of eligible current and capital research and development expenditures incurred in each taxation year. Investment tax credits are recognized when there is reasonable assurance that the Company will comply with the associated conditions and the grants will be received. The investment tax credits are recognized either as an item on the statement of net loss and comprehensive loss, or as a reduction in property, plant and equipment, depending on where the original costs which gave rise to the credits were recorded.

2.21 Vendor Rebates

The Company records certain consideration received from a vendor, which are probable and can be reasonably estimated, as a reduction of the cost of purchases during the period, even if the full requirements for entitlement to these rebates have not yet been met. The amount of vendor rebates recorded is based on purchases-to-date and management's best estimate of rebate levels that will be achieved through the duration of the contract.

2.22 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. Estimates are reviewed on a regular basis and, as adjustments become necessary, they are reported in the statement of net loss and comprehensive loss in the periods in which they become known. The assets and liabilities which require management to make significant estimates and assumptions in determining carrying values include, but are not limited to, inventories, derivative financial instruments, embedded derivatives, property, plant and equipment, intangible assets, goodwill impairment assessment, provision for warranty costs, accrued benefit liability, accrued bonus liability, performance unit plan liability and deferred income taxes.

The estimates and assumptions that are critical to the determination of carrying value of assets and liabilities are addressed below.

Other identifiable intangible assets and goodwill

The values associated with identifiable intangible assets and goodwill involves significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives.

These significant estimates and judgments require considerable judgment which could affect the Company's future results if the current estimates of future performance and fair values change. These determinations will affect the amount of amortization expense on identifiable intangible assets recognized in future periods.

The Company assesses impairment by comparing the recoverable amount of an identifiable intangible asset or goodwill with its carrying value. The determination of the recoverable amount involves significant judgment of management.

The Company performs its annual test for goodwill impairment in the third quarter in accordance with the policy described in note 2.14 The Company has two CGUs, of which the carrying values include goodwill and must be tested for impairment. No impairment losses in respect of goodwill were recognized in 2010 or the first quarter of 2011. The recoverable amount of the CGUs was determined based on a combination of various techniques including the present value of expected future cash flows and earnings multiples of like businesses. The recoverable amount of each of the units was greater than its carrying value. Projections of future earnings were a critical estimate in determining fair value.

Employee future benefits

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Determination of benefit expense requires assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, the projected age of employees upon retirement and the expected rate of future compensation. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value.

Actual results will differ from results which are estimated based on assumptions. See note 2.7 for certain assumptions made with respect to employee future benefits.

Income Taxes

Income taxes in interim reporting periods are accrued, to the extent practicable, by applying estimated average annual effective income tax rates for each taxing jurisdiction to the interim period pre-tax income in those jurisdictions. A weighted average of rates across jurisdictions or categories of income is used if it is a reasonable approximation of the effect of using more specific rates. The estimated average annual effective income tax rates are re-estimated at each interim reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire. The Company's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of the Company's ability to utilize the underlying future tax deductions changes, the Company would be required to recognize more or fewer of the tax deductions as assets, which would decrease or increase the income tax expense in the period in which this is determined.

The Company is subject to taxation in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions for uncertain tax positions are made using management's best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. Management reviews the adequacy of these provisions at each statement of financial position date. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

The operations and organizational structure of the Company are complex, and related tax interpretations, regulations and legislation are continually changing. As a result, there are usually some tax matters in question that result in uncertain tax positions. The Company approaches uncertain tax positions from a liability or exposure perspective. The Company provides for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management's assessment of exposures.

Critical judgments in applying accounting policies

The following critical judgments that were made by management have the most significant effect on the amounts recognized in the financial statements.

Revenue recognition

As described in note 2.6, the Company assessed the criteria for the recognition of revenue related to arrangements that have multiple components as set out in IAS 18. Also, judgment is necessary to determine when components can be recognized separately and the allocation of the related consideration allocated to each component.

Functional currency

As described in note 2.5, the Company assessed the criteria for the determination of functional currency as set out in IAS 21. An entity is required to place the greatest weight on the currency that influences the pricing of the transactions that it undertakes rather than focusing on the currency in which the transactions are denominated in. The functional currency of the Company is the United States dollar as it is the currency that most influences its pricing for goods and services. In addition, it is the competitive forces of the United States marketplace that determines the sales prices of its goods and services. Predominantly, the costs for labour, material and overhead that address the needs and support the Company's customers are incurred in United States dollars, and hence the pricing of goods and services to the customer is more greatly influenced from operations and the competitive forces in United States.

2.23 Standards issued but not yet adopted

IFRS 7 Financial Instruments: Disclosures, Amendment regarding Disclosures on Transfer of Financial Assets:

This amendment requires that the Company provide the disclosures for all transferred financial assets that are not derecognized and for a continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred, effective for accounting periods beginning on or after July 1, 2011. The Company does not expect any material impact to the Statements as a result of adopting this standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS 9 Financial Instruments:

This standard replaces the current IAS 39 Financial Instruments Recognition and Measurement. The Company will start the application of IFRS 9 in the financial statements effective from January 1, 2013. The Company has not yet evaluated the impact on the Statements.

IAS 12 Income Tax, Amendment regarding Deferred Tax: Recovery of Underlying Asset:

The standard requires an entity to recognize a deferred tax asset or liability depending on the expected manner of recovery or settlement of the asset or liability and for which the tax base is not immediately apparent, effective for accounting periods beginning on or after January 1, 2012. The Company does not expect any material impact to the Statements as a result of adopting this standard.

2.24 Fiscal periods

The Company's 2011 fiscal period is divided in quarters as follows:

	Period from January 3, 2011 to January 1, 2012 ("Fiscal 2011")		Period from January 4, 2010 to January 2, 2011 ("Fiscal 2010")	
	Period End Date	# of Weeks	Period End Date	# of Weeks
Quarter 1	April 3, 2011	13	April 4, 2010	13
Quarter 2	July 3, 2011	13	July 4, 2010	13
Quarter 3	October 2, 2011	13	October 3, 2010	13
Quarter 4	January 1, 2012	13	January 2, 2011	13
Fiscal year	January 1, 2012	52	January 2, 2011	52

3. ACCOUNTS RECEIVABLES

	April 3, 2011	January 2, 2011	January 4, 2010
Trade	$ 104,494	$ 52,487	$ 96,375
Income taxes	3,907	1,505	—
Other	4,550	6,717	7,145
	$ 112,951	$ 60,709	$ 103,520

4. INVENTORIES

	April 3, 2011	January 2, 2011	January 4, 2010
Raw materials	$ 47,489	$ 38,600	$ 57,893
Work in process	50,982	42,580	72,729
Finished goods	7,136	1,702	8,735
	$ 105,607	$ 82,882	$ 139,357

During the 13-week period ended April 3, 2011 ("2011 Q1"), the Company had a write-down of inventory to net realizable value recorded in cost of sales of $109, and $249 for 2010 Q1. There were no reversals of a write-down in inventory in either of the related periods.

5. PROPERTY, PLANT AND EQUIPMENT

	Land, building and building improvements	Machinery and equipment	Computer hardware and software	Office equipment	Demonstrator buses	Total
Cost	$ 13,852	$ 29,422	$ 11,700	$ 507	$ 1,364	$ 56,845
Accumulated depreciation	1,026	11,901	5,916	158	629	19,630
January 4, 2010 net book value	12,826	17,521	5,784	349	735	37,215
Additions (cash and leased)	917	3,083	1,614	431	1,219	7,264
Additions resulting from business combination	—	473	—	15	—	488
Disposals	—	—	—	—	—	—
Depreciation charge	(450)	(4,307)	(2,132)	(142)	(850)	(7,881)
January 2, 2011 net book value	13,293	16,770	5,266	653	1,104	37,086
Additions (cash and leased)	152	675	383	56	149	1,415
Depreciation charge	(114)	(1,107)	(526)	(35)	(232)	(2,014)
April 3, 2011 net book value	**13,331**	**16,338**	**5,123**	**674**	**1,021**	**36,487**
Recorded as:						
Cost	14,769	32,978	13,314	953	2,583	64,597
Accumulated depreciation	1,476	16,208	8,048	300	1,479	27,511
January 2, 2011 net book value	$ 13,293	$ 16,770	$ 5,266	$ 653	$ 1,104	$ 37,086
Cost	14,921	33,653	13,697	1,009	2,732	66,012
Accumulated depreciation	1,590	17,315	8,574	335	1,711	29,525
April 3, 2011 net book value	**$ 13,331**	**$ 16,338**	**$ 5,123**	**$ 674**	**$ 1,021**	**$ 36,487**

Bank borrowings are secured on all above tangible properties and assets.

The Company leases various machinery and computer hardware and software licenses under non-cancellable finance lease agreements. The lease terms expire between April 2011 and February 2015. During 2011 Q1 the Company had $392 of additions to leased machinery and computer hardware. The Company is a lessee under a finance lease for machinery and computer hardware and software licenses as follows (which amounts have been included in the preceding table):

	Machinery and equipment	Computer hardware and software	Total
Cost	$ 7,766	$ 4,604	$ 12,370
Accumulated depreciation	4,256	2,920	7,176
April 3, 2011 net book value	$ 3,510	$ 1,684	$ 5,194

6. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Trade names	Patents	Customer relationships	Total
Cost	$ 201,083	$ 154,200	$ 99,700	$ 158,700	$ 613,683
Accumulated amortization	—	—	(20,524)	(18,668)	(39,192)
January 4, 2010 net book value	201,083	154,200	79,176	140,032	574,491
Additions	1,085	—	—	—	1,085
Amortization charge	—	—	(8,308)	(7,557)	(15,865)
January 2, 2011 net book value	202,168	154,200	70,868	132,475	559,711
Additions	—	—	631	—	631
Amortization charge	—	—	(2,098)	(1,889)	(3,987)
April 3, 2011 net book value	202,168	154,200	69,401	130,586	556,355
Recorded as:					
Cost	202,168	154,200	99,700	158,700	614,768
Accumulated amortization	—	—	28,832	26,225	55,057
January 2, 2011 net book value	$ 202,168	$ 154,200	$ 70,868	$ 132,475	$ 559,711
Cost	202,168	154,200	100,331	158,700	615,399
Accumulated amortization	—	—	30,930	28,114	59,044
April 3, 2011 net book value	$ 202,168	$ 154,200	$ 69,401	$ 130,586	$ 556,355

Impairment tests for Goodwill

Goodwill is allocated to the Company's CGUs identified according to operating segment.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use estimated cash flow projections based on financial plans approved by management covering a two to three year period. Cash flows beyond this period are extrapolated using a steady estimated growth rate based on the long-term average growth rate for each industry in which the CGUs operate. The Company has used discount rates between 12.5% and 14.5% and growth rates that range between 2% and 5% as key assumptions.

Management has determined planned gross margins based on a projected production schedule, past performance and expectations of market development. The average growth rates used are consistent with industry reports. The discount rates used reflect specific risk relating to the relevant operating segments.

7. DEFERRED TAXES

	April 3, 2011	January 2, 2011	January 4, 2010
Deferred tax assets:			
Deferred tax asset to be recovered after more than 12 months	$ 36,928	$ 33,078	$ 21,360
Deferred tax asset to be recovered within 12 months	5,017	8,467	5,802
	41,945	41,545	27,162
Deferred tax liabilities:			
Deferred tax liability to be recovered after more than 12 months	(135,993)	(137,383)	(136,690)
Deferred tax liability to be recovered within 12 months	(6,387)	(5,191)	(6,442)
	(142,380)	(142,574)	(143,132)
Deferred taxes (net)	(100,435)	(101,029)	(115,970)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The offset amounts by tax jurisdiction presented on the statements of financial position are as follows:

	April 3, 2011	January 2, 2011	January 4, 2010
As presented on statements of financial position:			
Deferred tax assets	$ 28,589	$ 24,968	$ 5,284
Deferred tax liabilities	(129,024)	(125,997)	(121,254)
Deferred taxes (net)	(100,435)	(101,029)	(115,970)

The gross movement on the deferred income tax account is as follows:

	13-Weeks Ended April 3, 2011	52-Weeks Ended January 2, 2011
Beginning of period	$ (101,029)	$ (115,970)
Exchange differences	390	533
Statement of comprehensive loss charge	203	12,684
Tax charged directly to equity	—	1,724
End of period	$ (100,435)	$ (101,029)

The movement in deferred income tax assets and liabilities during the periods, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities	Property Plant and Equipment	Unrealized Foreign Exchange	Goodwill and Intangibles	Other	**Total**
January 4, 2010	$ —	$ (5,162)	$ (136,294)	$ (1,676)	$ (143,132)
Statement of comprehensive loss charge	(1,276)	(1,318)	1,858	1,294	558
January 2, 2011	(1,276)	(6,480)	(134,436)	(382)	(142,574)
Statement of comprehensive loss charge	121	(1,606)	1,353	326	194
April 3, 2011	$ (1,155)	$ (8,086)	$ (133,083)	$ (56)	$ (142,380)

7. DEFERRED INCOME TAX (Continued)

Deferred tax assets		Provisions		Pension		Deferred Financing costs		Other		**Total**
January 4, 2010	$	14,460	$	2,420	$	2,807	$	7,475	$	27,162
Statement of comprehensive loss charge		4,214		2,607		3,126		5,627		15,574
Charged directly to equity		—		(1,724)		—		—		(1,724)
Exchange differences		309		52		60		112		533
January 2, 2011		18,983		3,355		5,993		13,214		41,545
Statement of comprehensive loss charge		(352)		(136)		(85)		584		11
Exchange differences		185		33		58		113		389
April 3, 2011	$	18,816	$	3,252	$	5,966	$	13,911	$	41,945

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company has a loss carry-forward of $11,118 which may be applied against future taxable income. The right to claim these losses expires as follows:

2012 to 2019 (includes $441 of U.S. federal tax losses that are restricted in application to $55 per year)	$	945
2026		1,592
2027		1,739
2028		2,156
2029		2,386
2030		2,114
2031		186
	$	11,118

The Company has undeducted share issuance costs in the amount of $1,406. The Company did not recognize deferred income tax assets of $3,102, primarily due to loss carry forwards. Annually, the Company reviews the likelihood of realization of the future benefits of the loss carry-forwards. In management's opinion, only certain loss carry forwards have met the criteria for recording deferred tax assets.

7. DEFERRED INCOME TAX (Continued)

The reconciliation of income tax computed at the U.S. statutory rate, to income tax expense is as follows:

	13-Weeks Ended April 3, 2011	13-Weeks Ended April 4, 2010
Loss before income tax	$ (3,724)	$ (13,016)
Tax calculated using U.S. tax rate	(1,304)	(4,035)
Tax effect of:		
Non-taxable income	(1,283)	—
Benefit of deductible share issue costs	(58)	(162)
Withholding and other taxes	561	900
Non-deductible expenses	401	33
Revision of tax estimates	—	97
Impact of subsidiaries' foreign branch operations	—	739
Foreign exchange impact of subsidiaries' foreign branch	4,286	4,771
State taxes	25	—
Distributions on Class B Shares and Class C Shares treated as interest expense	—	504
Impact of other liabilities, Class B Shares and Class C Shares fair value adjustment	—	603
Recognition of previously unrecorded assets	—	(2,252)
Other	9	(286)
Income tax expense for the period	$ 2,637	$ 912

	13-Weeks Ended April 3, 2011	13-Weeks Ended April 4, 2010
Total current tax for the period	$ 2,840	$ 2,282
Total deferred tax recovered for the period	(203)	(1,370)
Income tax expense for the period	$ 2,637	$ 912

8. LONG-TERM DEBT

	Final Maturity	Face Value	Unamortized Transaction Costs	**Net Book Value April 3, 2011**	Net Book Value January 2, 2011	Net Book Value January 4, 2010
Subordinated Notes included in the IDS issue (a)	2020	$ 283,698	$ 2,327	$ 281,371	$ 272,799	$ 247,331
Separate Subordinated Notes (b)	2020	44,805	172	44,633	43,275	40,946
Term Credit Facility (c)	2012	90,000	935	89,065	88,855	88,056
		$ 418,503	$ 3,434	$ 415,069	$ 404,929	$ 376,333

There are no principal repayments required on long-term debt within the next five years except for the Term Credit Facility (as defined in (c) below) to be repaid in April 2012.

(a) C$273,599 (January 2, 2011: C$273,599, January 4, 2010: C$261,697) is the aggregate principal amount of 14%, unsecured Subordinated Notes denominated in Canadian dollars that mature August 2020.

The Subordinated Notes are subordinated in right of payment to all existing and future senior indebtedness of NFI ULC and are senior in right of payment to any subordinated indebtedness of NFI ULC. The Subordinated Notes are an unsecured obligation of NFI ULC and are guaranteed by NFAI on an unsecured basis.

Except for a tax redemption, NFI ULC may not redeem the Subordinated Notes prior to August 19, 2012. On or after August 19, 2012, NFI ULC may redeem the Subordinated Notes at its option, at any time in whole and from time to time in part, upon not less than 30 nor more than 60 days' notice to holders, for cash, at a redemption price (expressed as a percentage of principal amount) set forth below, plus accrued and unpaid interest on the Subordinated Notes redeemed to the applicable redemption date, if redeemed during the 52-week period beginning on August 19 during the years indicated below:

YEAR	**Percentage**
2012	105%
2013	104%
2014	103%
2015	102%
2016	101%
2017 and thereafter	100%

(b) NFI ULC issued C$43,210 (January 2, 2011: C$43,210, January 4, 2010: C$43,210) of 14% Separate Subordinated Notes, under the same terms and conditions as the Subordinated Notes included in the issuance of income deposit securities ("IDSs"), noted in (a) above. The Separate Subordinated Notes and the Subordinated Notes issued as part of the IDSs were issued under the same indenture and the holders vote together as a single class in proportion to the aggregate principal amount of Subordinated Notes they hold on all matters on which they are eligible to vote under the indenture.

(c) On April 24, 2009, NFI ULC and NFAI entered into an amended and restated senior credit facility with a syndicate of financial institutions (the "Credit Facility") that matures in April, 2012. The Credit Facility includes a $90,000 secured term loan facility (the "Term Credit Facility"), of which $90,000 was drawn at April 3, 2011, a $50,000 secured revolving credit facility (with no drawings at April 3, 2011) and a $40,000 letter of credit facility, which was drawn at $15,073 at April 3, 2011 (January 2, 2011: $15,456, January 4, 2010: C$16,988).

The obligations in respect of the Credit Facility are secured by: (A) a perfected lien on, and pledge of, (i) all of the capital stock of, and inter-company notes owing to, THI and (ii) all of the capital stock of, and inter-company notes owing to THI and all of its existing and future direct and indirect subsidiaries (collectively, the "Guarantors"), and (B) a perfected lien on, and security interest in, all of the existing and future tangible and intangible properties and assets of (i) NFI ULC, (ii) NFAI, (iii) THI and (iv)

8. LONG-TERM DEBT (Continued)

each of the Guarantors, with certain exceptions. NFL Holdings has provided a limited recourse guarantee of the obligations under the Credit Facility secured by its capital stock in THI, and NFI, though not a Guarantor, entered into a collateral covenant agreement.

Loans under the Term Credit Facility bear interest at a rate equal to LIBOR or a U.S. base rate for loans denominated in U.S. dollars and a Canadian prime rate or bankers acceptance rate for loans denominated in Canadian dollars, plus an applicable margin to those rates.

9. SHARE CAPITAL

Authorized	
Unlimited	Common Shares

Issued		April 3, 2011	January 2, 2011	January 4, 2010
49,475,279	Common Shares (January 2, 2011: 49,475,279, January 4, 2010: 47,323,100)	$ 226,338	$ 226,338	217,469

The following is a summary of changes to the issued and outstanding capital stock during the periods:

Common Shares	Number (000s)	$
Balance –January 4, 2010	47,323	$ 217,469
Common shares issued in exchange for Class B Shares and Class C Shares on June 24, 2010	2,152	9,348
Less: share issuance costs	—	(479)
Balance – April 3, 2011 and January 2, 2011	49,475	$ 226,338

The basic and diluted earnings per share have been calculated using the weighted average number of shares outstanding for 2011 Q1 of 49,475,279 and 47,323,100 for 2010 Q1.

The Company declared dividends during 2011 Q1 of $4,990 (2010 Q1- $4,491) to the holders of common shares.

The dividends on the common shares represented by an IDS will be paid if and to the extent dividends are declared by NFI's board of directors and permitted by applicable law. NFI has adopted a dividend policy whereby the Company generally declares dividends of its available cash to the maximum extent possible by way of equal monthly dividends after satisfying its debt service or other obligations under any credit facilities or other agreements with third parties, satisfying its interest and other expense obligations including any applicable taxes, and retaining reasonable working capital or other reserves as may be considered appropriate by its board of directors.

10. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	**13-weeks Ended April 3, 2011**	13-weeks Ended April 4, 2010
Accounts receivable	$ (52,242)	(18,688)
Inventories	(22,725)	(138)
Prepaid expenses and deposits	575	1,124
Accounts payable and accrued liabilities	46,113	(12,239)
Deferred revenue	(24,158)	(1,811)
Provision for warranty costs	(316)	334
	$ (52,753)	(31,418)

Supplemental cash flow information

	13-weeks Ended April 3, 2011	13-weeks Ended April 4, 2010
Cash payments of interest	$ 13,674	12,767
Cash payments of income taxes	3,311	4,415

11. EMPLOYEE FUTURE BENEFITS

Defined benefit plan

The Company's subsidiary, NFI ULC, has a defined benefit plan which covers unionized employees. An actuarial valuation was last performed as at December 31, 2009. The next compulsory actuarial valuation as of December 31, 2010 will be completed in May 2011.

Information in respect of the Company's defined benefit plan is as follows:

	April 3, 2011	January 2, 2011	January 4, 2010
Change in plan assets			
Plan assets at fair value — beginning of period	$ 29,679	$ 22,228	$ 14,897
Actual return on plan assets	549	2,499	1,823
Employer’s contributions	1,133	4,224	3,598
Benefits paid	(192)	(746)	(741)
Foreign exchange	984	1,474	2,651
Plan assets at fair value — end of period	32,154	29,679	22,228
Change in defined benefit obligation			
Accrued benefit obligation — beginning of period	38,601	28,858	17,146
Current service cost	482	1,422	1,026
Interest cost	546	1,935	1,595
Benefits paid	(192)	(746)	(741)
Foreign exchange	1,365	1,917	3,314
Plan amendments	—	—	3,203
Actuarial loss	—	5,215	3,315
Defined benefit obligation — end of period	40,802	38,601	28,858
Accrued benefit liability - present value of unfunded obligations	(8,648)	(8,922)	(6,630)

11. EMPLOYEE FUTURE BENEFITS (Continued)

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligation and net pension plan expenses are as follows:

	13-Weeks Ended April 3, 2011	13-Weeks Ended April 4, 2010
Accrued benefit obligation		
Discount rate	5.75%	6.50%
Pension plan expense		
Discount rate	6.50%	8.75%
Expected long-term rate of return on plan assets	7.00%	7.00%

The Company's defined benefit plan is a fixed benefit plan and, as a result, the rate of compensation increases does not have any impact on the actuarially determined accrued benefit liability.

The Company's net defined benefit pension plan expense, included in cost of goods sold is as follows:

	13-Weeks Ended April 3, 2011	13-Weeks Ended April 4, 2010
Current service costs	$ 482	$ 358
Interest cost on accrued benefit obligations	546	474
Actual return on assets	(549)	(416)
Foreign exchange	(23)	—
Pension expense for the period	$ 456	$ 416

Net actuarial losses on defined benefit pension of $2,861 (net of income tax recovery of $1,724) were recorded in other comprehensive loss during Fiscal 2010.

An analysis of the assets of the plan by investment category is provided as follows:

	April 3, 2011	January 2, 2011
Asset category		
Canadian equities	20.3%	20.0%
Foreign equities	30.2%	29.7%
Bonds	49.5%	50.3%
	100.0%	100.0%

Expected contributions to post employment benefit plans for the 52-week period ending January 1, 2012 are $4,520.

11. EMPLOYEE FUTURE BENEFITS (Continued)

Defined contribution pension plans

In the United States, the Company maintains two savings retirement plans (401(k) plans). In Canada, the Company maintains a defined contribution plan for salaried employees. The net pension expense for the Company's defined contribution plans is as follows:

	13-Weeks Ended April 3, 2011	13-Weeks Ended April 4, 2010
Defined contribution pension expense	$ 517	$ 524

Cash payments contributed by the Company during 2011 Q1 for its defined benefit and defined contribution pension plans amounted to $1,650 (2010 Q1: $1,160).

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Financial Instruments

The Company has made the following classifications:

Cash	Loans and receivables
Accounts receivable	Loans and receivables
Deposits	Loans and receivables
Accounts payables and accrued liabilities	Other Liabilities
Other liabilities, Class B Shares and Class C Shares	Other Liabilities
Long-term debt	Other Liabilities
Derivative Financial instruments and embedded derivatives	Fair value through profit and loss

(b) Fair value measurement of financial instruments

The Company categorizes its fair value measurements of financial instruments according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company’s valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

Level 1 – fair value measurements that reflect unadjusted, quoted prices in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date.

Level 2 – fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable that are not prices (such as interest rates and credit risks) and inputs that are derived from or corroborated by observable market data.

Level 3 – fair value measurements using significant non-market observable inputs. These include valuations for assets and liabilities that are derived using data, some or all of which is not market observable data, including assumptions about risk.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The fair value is principally applied to financial assets and liabilities such as derivative instruments consisting of interest rate swaps and foreign exchange forward contracts and embedded derivatives. The following table provides a summary of financial assets and liabilities that are measured at fair value as of April 3, 2011:

	April 3, 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial instrument asset Foreign exchange forward contract	$ —	$ 474	$ —	$ 474
Embedded derivative instrument	—	8,577	—	8,577
	$ —	$ 9,051	$ —	$ 9,051
Liabilities				
Derivative financial instrument liabilities				
Interest rate swap	$ —	$ 2,084	$ —	$ 2,084

	January 2, 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial instrument asset Foreign exchange forward contract	$ —	$ 8	$ —	$ 8
Embedded derivative instrument	—	4,910	—	4,910
	$ —	$ 4,918	$ —	$ 4,918
Liabilities				
Derivative financial instrument liabilities				
Interest rate swap	$ —	$ 2,510	$ —	$ 2,510

Derivative financial instruments – The fair value of derivative instruments generally reflects the estimated amounts that the Company would receive to sell favourable contracts, (i.e., taking into consideration the counterparty credit risk), or pay to transfer unfavourable contracts, (i.e., taking into consideration the Company's credit risk, at the reporting dates). The fair value measurement of the Company's foreign exchange forward contracts is classified as Level 2 because the discounted cash flows use public market data inputs which are observable and reliable such as interest rates, forward market rates and credit spreads. The Company's interest rate swap is negotiated directly between the Company and its counterparty and does not trade in an active market. All significant inputs, including benchmark interest rates and counterparty credit spreads, are observable and therefore the swap has been classified as Level 2.

Financial instruments whose carrying value approximates fair value – The carrying value of accounts receivable, deposits and accounts payable and accrued liabilities approximates their fair value due to the short-term nature of these instruments. The carrying value of the Term Credit Facility approximates fair value primarily because the interest rate is variable. Other liabilities, the former Class B common shares ("Class B Shares") and Class C common shares ("Class C Shares") of the Company's subsidiary, NFL Holdings are recorded at amortized cost, which approximates the fair value based on the redemption value, and was calculated in accordance with the provisions of the securityholders agreement governing NFL Holdings. The securityholders agreement governing NFL Holdings has now been terminated.

Long-term debt – All other debt of the Company bears interest at fixed rates. The fair values have been estimated based on future projected cash flows and the risk-free rate on an instrument with similar terms, adjusted for appropriate risk premium for the Company's credit profile.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Estimated fair value amounts for the financial instruments that relate to the Company's debt that bears interest at fixed interest rates are as follows:

	Net Book Value April 3, 2011	**Fair Value April 3, 2011**	Net Book Value January 2, 2011	Fair Value January 2, 2011	Net Book Value January 4, 2010	Fair Value January 4, 2010
Subordinated Notes included in the IDS issue	$ 281,371	$ 286,463	$ 272,799	$ 279,111	$ 247,331	248,486
Separate Subordinated Notes	44,633	45,242	43,275	44,080	40,946	41,029

(c) Risk Management

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objective of the Company's risk management process is to ensure that risks are properly identified and that the capital base is adequate in relation to these risks. The principal financial risks to which the Company is exposed are described below.

Market risk (interest rate risk and currency risk)

Market risk incorporates a range of risks. Movements in risk factors, such as interest rate risk and foreign currency risk, affect the fair values of financial assets and liabilities. The Company uses derivative financial instruments including interest rate swaps, foreign exchange options and forward foreign exchange contracts to manage its risks associated with potentially adverse changes in interest rates and foreign exchange rates. These instruments are financial contracts whose value depends on interest rates and foreign currency prices. The use of derivatives allows the transfer, modification and reduction of current and expected risks, including interest rate, foreign exchange and other market risks. The Company uses derivative financial instruments to manage interest rate and foreign exchange risks in accordance with its risk management policies.

The Company does not hold financial instruments for speculative or trading purposes. The Company has elected not to apply hedge accounting to its derivative financial instruments.

Interest rate risk

NFI's borrowings under the Term Credit Facility are at variable rates of interest and expose the Company to interest rate risk. The Company attempts to mitigate this risk through interest rate swaps that could become materially more expensive if interest rates increase or become more volatile. If the cost of mitigating interest rates increases, the Company's debt service obligations on its variable rate indebtedness would increase even though the amount borrowed remained the same, and the Company's net earnings and cash available for servicing its other indebtedness would decrease.

The Company entered into an interest rate swap with a notional principal amount of $90,000 which fixes the interest rate on the Term Credit Facility at 2.61% plus the applicable credit spread per the swap agreement, maturing on April 24, 2012. The fair value of the interest rate swap liability at April 3, 2011 is $2,084 (January 2, 2011: $2,510) and the change in fair value has been recorded as interest expense for the reported period. The related liability has been recorded on the statement of financial position as a derivative financial instruments liability.

The interest rate swap is subject to interest rate risk. As an illustration, if interest rates at the statement of financial position date had been 100 basis points lower, with all other variables held constant, net loss and comprehensive loss for the 2011 Q1 would have been lower by $487, arising mainly as a result of the related fair value adjustment recorded as lower interest expense. If interest rates had been 100 basis points higher, with all other variables held constant, net loss and comprehensive loss for 2011 Q1 would have been higher by $480, arising mainly as a result of the related fair value adjustment recorded as higher interest expense.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Foreign currency risk

The United States dollar is the Company's functional currency. Fluctuations in the exchange rate between the United States dollar and Canadian dollar will affect the Company's reported results. However, the impact of changes in foreign exchange rates on the Company's reported results differs over time depending on whether the Company is generating a net cash inflow or outflow of Canadian dollars. This is largely dependent on the Company's revenue mix by currency as operating costs denominated in Canadian dollars have been relatively stable. During 2011 Q1, the Company generated a net inflow of Canadian dollars, as such; earnings from operations are positively affected by a stronger Canadian dollar compared to the United States dollar. Alternatively, to the extent the Company has borrowings that are denominated in Canadian dollars, its earnings before income taxes will be negatively affected by a stronger Canadian dollar compared to the United States dollar.

During 2011 Q1, the Company recorded realized foreign exchange gains of $669. This was comprised of $1,068 gain on settlement of foreign exchange contracts and a $399 foreign currency loss on translation of Canadian dollar denominated operations and distributions.

At April 3, 2011, the Company had a foreign exchange forward contract that expired at the end of April 2011, the related asset of $474 is recorded on the statement of financial position as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts has been recorded in the consolidated statement of comprehensive loss.

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk, primarily Canadian dollar balances relating to long-term debt. As an illustration, at April 3, 2011, if the Canadian dollar had weakened 10 percent against the US dollar, with all other variables held constant, net loss and comprehensive loss for 2011 Q1 would have been lower by $18,606, respectively. Conversely, if the Canadian dollar had strengthened 10 percent against the US dollar with all other variables held constant, net earnings and comprehensive income would have been higher by $22,741 for 2011 Q1. The impact of these potential fluctuations produces unrealized foreign exchange gains and losses almost entirely related to the Canadian denominated long-term debt that matures in 2020.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. Financial liabilities consist of accounts payable and accrued liabilities, obligations under finance leases, long-term debt and derivative financial instruments. Trade payables and accrued liabilities are paid in the normal course of business and except under certain exceptions, no later than three months.

The following table outlines the Company's maturity analysis of the undiscounted cash flows of certain non-current financial liabilities and leases as at April 3, 2011:

US dollars in thousands	Total	2011	2012	2013	2014	2015	Post 2015
Term Credit Facility	$ 95,000	$ 3,350	$ 91,650	$ —	$ —	$ —	$ —
Subordinated Notes included in IDS issue	651,090	29,788	39,718	39,718	39,718	39,718	462,430
Separate Subordinated Notes	103,863	4,704	6,272	6,272	6,272	6,272	74,071
Finance leases	6,594	2,313	2,442	1,320	506	13	—
Operating leases	27,759	2,477	2,424	1,974	1,813	1,784	17,287
	$ 884,306	$ 42,632	$ 142,506	$ 49,284	$ 48,309	$ 47,787	$ 553,788

The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At April 3, 2011, the Company had a cash balance of $17,792 (January 2, 2011 $73,463) and had a $50,000 secured revolving credit facility. As at April 3, 2011, there were no direct borrowings under this secured revolving credit facility.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Management expects that the Company's principal sources of funds will be cash generated from its operating activities and borrowing capacity remaining under its Credit Facility. Management believes that these funds (together with the renewal or replacement of the Credit Facility) will provide NFI with sufficient liquidity and capital resources to meet its current and future financial obligations as they come due, as well as to provide funds for its financing requirements, capital expenditures and other needs for the foreseeable future.

Credit risk

Financial instruments which potentially subject the Company to credit risk and concentrations of credit risk consist principally of cash, accounts receivable and derivatives. Management has assessed that the credit risk associated with accounts receivable is mitigated by the significant proportion for which the counterparties are well-established transit authorities. Additionally, the U.S. federal government funds a substantial portion of U.S. customer payments, as 80% of the capital cost of new buses typically come from the U.S. Federal Transportation Administration, while the remaining 20% comes from state and municipal sources. The maximum exposure to the risk of credit for accounts receivables corresponds to their book value. Historically, the Company has experienced nominal bad debts as a result of the customer base being principally comprised of municipal and other local transit authorities. During 2011 Q1, the Company recorded a bad debt expense of $14 as compared to zero bad debt expense in 2010 Q1.

The carrying amount of accounts receivable is reduced through the use of an allowance account and the amount of the loss is recognized in the earnings statement within sales, general and administrative costs and other expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for accounts receivable. Subsequent recoveries of amounts previously written off are credited against sales, general and administrative costs and other expenses in the earnings statement.

The following table details the aging of the Company's receivables and related allowance for doubtful accounts are as follows:

	April 3, 2011	January 2, 2011	January 4, 2010
Current, including holdbacks	$ 89,721	$ 51,317	$ 78,383
Past due amounts but not impaired			
1 – 60 days	15,215	4,494	21,800
Greater than 60 days	8,051	4,919	3,429
Less: Allowance for doubtful accounts	(36)	(21)	(92)
Total accounts receivables, net	$ 112,951	$ 60,709	$ 103,520

As at April 3, 2011, there was no amount that would otherwise be past due or impaired whose terms have been renegotiated.

The counterparties to the Company's derivatives are significant financial institutions. The Company could be exposed to loss in the event of non-performance by the counterparty, however, credit ratings and concentration of risk of the financial institutions are monitored on a regular basis.

(d) Capital management

The Company's objectives in managing capital are to deploy capital to provide an appropriate return to holders of IDSs and to maintain a capital structure that provides the flexibility to take advantage of growth and development opportunities, maintain existing assets, meet financial obligations and enhance the value of the IDSs. The capital structure of the Company consists of cash, long-term debt and shareholders' equity. The Company manages capital to ensure an appropriate balance between debt and equity.

In order to maintain or adjust its capital structure, the Company may issue additional IDSs, borrow additional funds or refinance debt at different terms and conditions.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

As a result of borrowing agreements entered into by the Company, there are certain financial covenants that must be maintained. Financial covenants include a fixed charge coverage ratio, senior leverage ratio and total leverage ratio.

As at April 3, 2011, the Company is in compliance with the financial covenants in the Credit Facility. The results of the financial covenants tests as of such date are as follows:

	April 3, 2011	January 2, 2011	January 4, 2010
Senior Leverage Ratio (must be less than 2.25)	0.81	0.27	0.67
Total Leverage Ratio (must be less than 4.75)	4.18	3.82	3.51
Fixed Charge Coverage Ratio (must be greater than 1.10)	1.57	1.47	1.77

Compliance with financial covenants is reported quarterly to the Board of Directors. Other than the requirements imposed by borrowing agreements, the Company is not subject to any externally imposed capital requirements.

Capital management objectives are reviewed on an annual basis. The capital management objectives are unchanged from the last reporting period.

13. SEGMENT INFORMATION

The Group has two reportable segments: Bus Operations and Aftermarket Operations, which are the Company's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Company's CEO reviews internal management reports on at monthly basis.

The Bus Operations segment derives its revenue from the manufacture of heavy-duty transit buses for public transportation. The Aftermarket Operations segment derives its revenue from the provision of service parts and support related to heavy-duty transit buses. These operating segments are consistent with the management of the business, which is based on the products and services offered.

There is no inter-segment revenue. Unallocated items in the consolidated earnings before income taxes primarily include foreign exchange gains or losses, losses or gains on disposition of property, plant and equipment, depreciation of property, plant and equipment, amortization of intangible assets, interest expense and income, fair value adjustment to embedded derivative, accretion in carrying value of long-term debt, gains and losses on the Company's interest rate swap and distributions on Class B Shares and Class C Shares. Corporate overhead costs are allocated fully to the Bus Operations segment.

The unallocated total assets of the Company primarily include cash, intangible assets, embedded derivative instrument, due from related party and deferred income tax assets.

Corporate assets that are shared by both operating segments are allocated fully to the Bus Operations segment.

13. SEGMENT INFORMATION (Continued)

Segment information about profits and assets is as follows:

	13-Weeks Ended April 3, 2011			
	Bus Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 187,458	$ 26,886	$ —	$ 214,344
Operating costs and expenses	172,807	21,263	—	194,070
Earnings (loss) before income taxes	14,651	5,623	(23,998)	(3,724)
Total assets	371,279	90,555	409,619	871,453
Capital expenditures	947	76	—	1,023
Goodwill	148,483	53,685	—	202,168

	13-Weeks Ended April 4, 2010			
	Bus Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 216,107	$ 26,873	$ —	$ 242,980
Operating costs and expenses	201,196	20,410	—	221,606
Earnings before income taxes	14,911	6,463	(34,390)	(13,016)
Total assets	465,650	39,057	377,704	882,411
Capital expenditures	1,632	75	—	1,707
Goodwill	147,398	53,685	—	201,083

The allocation of revenue to geographic areas is as follows:

	13-Weeks Ended April 3, 2011	13-Weeks Ended April 4, 2010
United States	$ 119,756	$ 184,059
Canada	94,588	58,921
Total	$ 214,344	$ 242,980

14. RELATED PARTY TRANSACTIONS

The Company has the following related party balances:

	April 3, 2011	January 2, 2011	January 4, 2010
Due from New Flyer LLC (held by management), interest rate of 15.5%, payable on demand	$ —	$ —	$ 510
	$ —	$ —	$ 510

Loans were made in lieu of dividends to New Flyer LLC on its Class B Shares and Class C Shares. The related party transactions were measured at the exchange amount, which is the amount of consideration established and agreed to by the related party. All related party loans with New Flyer LLC were repaid in full on June 24, 2010 and subsequently, New Flyer LLC was dissolved.

Compensation of key management

Key management includes the roles of CEO, CFO, executive vice presidents and vice presidents. The compensation paid or payable to key management for employee services is shown below;

	13-Weeks Ended April 3, 2011	13-Weeks Ended April 4, 2010
Short term employee benefits	$ 3,423	$ 2,928
Post-employment benefits	155	199
Share-based payment benefits	371	1,552

15. COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitments

The Company has leased real property with aggregate minimum lease payments of $27,759 payable as follows:

2011	$ 2,477
2012	2,424
2013	1,974
2014	1,813
2015	1,784
Thereafter	17,287
	$ 27,759

(b) In the normal course of business, the Company receives notice of potential legal proceedings or is named as a defendant in legal proceedings, including those that may be related to product liability, wrongful dismissal or personal injury. Many claims are covered by the Company's insurance policies and management does not expect any of the current claims to have a material adverse effect on the Company's financial position, results of operations or cash flows.

(c) Through the normal course of operations, the Company has indemnified the surety companies providing surety bonds required under various contracts with customers. In the event that the Company fails to perform under a contract and the surety companies incur a cost on a surety bond, the Company is obligated to repay the costs incurred in relation to the claim up to the value of the bond. The Company's guarantee under each bond issued by the surety companies expires on completion of obligations under the customer contract to which the bond relates. The estimated maturity dates of the surety bonds outstanding at April 3, 2011 range from April 2011 to March 2013.

At April 3, 2011, outstanding surety bonds guaranteed by the Company totaled $21,473. The Company has not recorded any liability under these guarantees, as management believes that no material events of default exist under any contracts with customers.

15. COMMITMENTS AND CONTINGENCIES (Continued)

(d) The Company has a letter of credit facility of $40,000. As at April 3, 2011, letters of credit totaling $15,073 remain outstanding under the letter of credit facility as security for the following contractual obligations of the Company:

	April 3, 2011	January 2, 2011	January 4, 2010
Collateral to secure operating facility leases	$ 272	$ 272	267
Collateral to secure surety facilities	3,599	3,599	3,599
Customer performance guarantees	10,072	10,455	12,242
Collateral in support of self-insured workers compensation obligations	1,130	1,130	880

As at April 3, 2011, management believes that the Company is in compliance in all material respects with all applicable contractual obligations and the Company has not provided for any costs associated with these letters of credit.

(e) As at April 3, 2011, a liability has been recorded of $167 relating to the statutory notice requirement applicable to a workforce reduction during Fiscal 2009. The liability is recorded on the statement of financial position within accounts payables and accrued liabilities. Management estimates that there is a maximum additional exposure of $459 that could occur in the event that the Company does not achieve the future planned production levels and related layoff recalls; however, management believes that it is probable that the planned business levels will be achieved in the future and therefore the Company has not recorded this amount.

16. GUARANTEES

The Company indemnifies its directors and officers against claims and damages that may be incurred in the performance of their services to the Company. Liability insurance has been purchased with respect to the Company's directors and officers.

17. PROVISION FOR WARRANTY COSTS

Extended warranties for major subsystems such as engines, transmissions, axles and air conditioning are normally purchased for the customer from the manufacturer. The Company will also provide other extended warranties, including those covering brake systems, lower level components, fleet defect provisions and engine-related components, covering a warranty period of approximately one to five years, depending on the contract.

Under the fleet defect provisions included in some bus purchase contracts, The Company is required to repair the entire fleet of buses delivered under the contract if the same defect occurs in more than a specified percentage of the fleet (typically 10% to 20%) within the initial twelve-month period following delivery of the bus. The Company also frequently provides a parts guarantee in its bus purchase contracts, under which the Company guarantees that bus parts will be available to the customer for a certain period of time, usually 15 years following delivery of the bus. The Company generally provides its customers with a one-year base warranty on the entire bus and a 12-year corrosion warranty on the bus structure. The Company also builds an estimate of these costs into each of its contracts based on the Company's historical experience and technical expectations.

The movement in the provision for warranty costs during the periods is as follows:

	Total
January 4, 2010	$ 31,409
Additions	29,682
Amounts used	(18,968)
Exchange differences	518
January 2, 2011	42,641
Additions	5,942
Amounts used	(6,774)
Exchange differences	516
April 3, 2011	$ 42,325

18. FIRST TIME ADOPTION OF IFRS

The Company has adopted IFRS on January 4, 2010 ("Transition date"). IFRS 1 First-time Adoption of International Financial Reporting Standards sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustments to assets and liabilities recorded to deficit unless certain exemptions or exceptions are applied. The Company has applied the following exemptions to its opening statement of financial position dated January 4, 2010:

IFRS Exemption Options

Set forth below are the IFRS 1 applicable exemptions applied in the conversion from Canadian GAAP to IFRS.

(a) Business Combinations and Consolidated and Separate Financial Statements – *IFRS 1.C1* indicates that a first-time adopter may elect not to apply *IFRS 3* Business Combinations retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has taken advantage of this election and has applied *IFRS 3* to business combinations that occurred on or after Transition date. In accordance with *IFRS 1*, if a company elects to apply *IFRS 3* Business Combinations retrospectively, *IAS 27* Consolidated and Separate Financial Statements must also be applied retrospectively. As the Company elected to apply *IFRS 3* prospectively, the Company has also elected to apply *IAS 27* prospectively.

(b) Share-based payment transactions - *IFRS 1* encourages, but does not require, first-time adopters to apply *IFRS 2* Share-based payment that were granted after November 7, 2002 and vested before date of IFRS adoption. The Company has elected not to apply *IFRS 2* to awards that vested prior to Transition date.

(c) IAS 19 - Employee benefits - *IFRS 1* provides the option to retrospectively apply the corridor approach under *IAS 19*, Employee Benefits, for the recognition of actuarial gains and losses, or recognize all cumulative gains and losses deferred under Canadian GAAP in retained earnings at Transition date. The Company elected to recognize all cumulative actuarial gains and losses that existed at its Transition Date in opening deficit for its employee defined benefit pension plan.

    A similar exemption was taken to prospectively disclose from the date of transition to IFRS, the amounts required by *IAS 19.120A(p)*.

(d) *IAS 23* - Borrowing Costs - requires an entity to capitalize the borrowing costs related to all qualifying assets for which the commencement date for capitalization is on or after Transition date. Borrowing costs on qualifying assets prior to Transition date were expensed as incurred.

(e) Extinguishing financial liabilities with equity instruments - the Company has elected to use the exemption under *IFRS 1.D25* allowing a first-time adopter to apply the transitional provisions in *IFRIC 19* Extinguishing Financial Liabilities with Equity Instruments. Therefore, the Company only has to retrospectively apply *IFRIC 19* from the beginning of the earliest comparative period presented instead of all previous years. There was no material impact as a result of applying this standard.

(f) Leases were not reassessed to determine whether an arrangement contained a lease under *IFRIC 4*, "Determining whether an Arrangement contains a Lease" for contracts that were already assessed under previous GAAP given that they result in the same outcome.

(g) A first-time adopter may have established a deemed cost in accordance with previous GAAP for some or all of its assets and liabilities by measuring them at their fair value at one particular date because of an event such as a privatization or initial public offering if the measurement date is at or before the date of transition to IFRSs, the entity may use such event-driven fair value measurements as deemed cost for IFRSs at the date of that measurement. An entity shall recognize the resulting adjustments directly in retained earnings at the measurement date.

IFRS Mandatory Exception applied in the conversion from Canadian GAAP to IFRS

Estimates - Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

18. FIRST TIME ADOPTION OF IFRS (Continued)

Below is the Company's consolidated statement of financial position as at the Transition date under IFRS. IFRS employs a conceptual framework that is similar to Canadian GAAP. While the adoption of IFRS has not changed the actual cash flows of the Company, the adoption has resulted in significant changes to the reported financial position and results of operations of the Company. Presented below are reconciliations prepared by the Company to reconcile to IFRS the assets, liabilities, equity, net loss and cash flows of the Company from those reported under Canadian GAAP:

As at January 4, 2010 **(unaudited, in thousands of U.S. dollars)**	Canadian GAAP	Effect of transition to IFRS	Notes	IFRS
Assets				
Current				
Cash	$ 30,696	$ —		$ 30,696
Accounts receivable	103,520	—		103,520
Inventories	139,357	—		139,357
Prepaid expenses and deposits	5,679	—		5,679
Derivative financial instrument	420	—		420
Due from related party	510	—		510
Deferred tax assets	8,767	(8,767)	(1)	—
	288,949	(8,767)		280,182
Property, plant and equipment	37,215	—		37,215
Intangible assets	373,408	—		373,408
Embedded derivative instrument	—	2,771	(8)	2,771
Deferred tax assets	2,796	2,488	(1,2,3)	5,284
Goodwill	167,521	33,562	(5)	201,083
	$ 869,889	$ 30,054		$ 899,943
Liabilities				
Current				
Accounts payable and accrued liabilities	$ 166,044	$ (6,547)	(6)	$ 159,497
Income taxes payable	—	6,547	(6)	6,547
Deferred revenue	25,129	—		25,129
Provision for warranty costs	31,409	—		31,409
Current portion of obligations under finance lease	2,590	—	(4)	2,590
Other liabilities, Class B Shares and Class C Shares	—	21,018	(7)	21,018
	225,172	21,018		246,190
Accrued benefit liability	1,305	5,325	(3)	6,630
Obligations under finance lease	5,570	—	(4)	5,570
Performance unit plan liability	4,547	—		4,547
Deferred tax liabilities	133,164	(11,910)	(1,2,3)	121,254
Long-term debt	376,333	—		376,333
Derivative financial instrument	2,091	—		2,091
Other liabilities, Class B Shares and Class C Shares	21,018	(21,018)	(7)	—
	769,200	(6,585)		762,615
Shareholders' equity				
Share capital	217,469	—		217,469
Deficit	(116,780)	36,639	(2,3,5, 8)	(80,141)
	100,689	36,639		137,328
	$ 869,889	$ 30,054		$ 899,943

18. FIRST TIME ADOPTION OF IFRS (Continued)

Notes

(1) IFRS re-labels “future income taxes” as “deferred taxes”. Also, a re-class entry from current to non-current is required as IAS 12 does not permit deferred tax assets and liabilities to be classified as current assets or current liabilities (i.e., all are considered non-current).

(2) Under Canadian GAAP, no deferred income tax asset or liability is recognized in respect of the difference between the historical exchange rate and the current exchange rate translation of non-monetary assets or liabilities of integrated foreign operations. However, IFRS contains no such exception and therefore deferred taxes are recognized in respect of these foreign exchange differences. More specifically, IAS 12 provides that deferred taxes should be recognized based on the difference between the carrying amount (which is determined using the historical exchange rate) of non-monetary assets and liabilities and the related tax basis (which is determined using the exchange rate on the statement of financial position date). The Company has evaluated these differences at January 4, 2010 and has identified an opening statement of financial position adjustment that would result in a credit to deficit at Transition date of $3.7 million, which increases deferred income tax assets by $3.7 million.

(3) The Company has chosen to use the optional IFRS 1 exemption and will recognize all unrecorded actuarial losses in deficit upon transition to IFRS, increasing the accrued benefit liability by $2.0 million. As well, IAS 19, requires the past service cost element of defined benefit plans to be expensed on an accelerated basis, with vested past service costs being expensed immediately. This resulted in an increase to the accrued benefit liability of $3.3 million. The total of both these adjustments increase accrued benefit liability by $5.3 million and increases deferred income tax assets by $1.9 million.

(4) IFRS re-labels “capital leases” as “finance leases”.

(5) As a result of the July 12, 2007 transaction (the “reconsideration event”), management has determined that the Company was deemed to be the primary beneficiary of NFL Holdings in accordance with Canadian Institute of Chartered Accountants Accounting Guideline No. 15 “Consolidation of Variable Interest Entities” (“AcG-15”), and as such the Company began effective July 12, 2007 to consolidate assets, liabilities and the results of operations of NFL Holdings and its subsidiaries. However, the July 12, 2007 reconsideration event did not constitute a business combination under IFRS as there is no “variable interests” model to determine which entities are consolidated. The July 12, 2007 transaction is a qualifying event that allows for the application of the *IFRS 1(2008).D8* exemption pertaining to an event-driven fair market valuation which allows the fair values determined at a qualifying event to be recorded as deemed cost under IFRS. The July 12, 2007 adjustments effectively fair-valued the assets and liabilities of NFL Holdings as at that date, with the primary adjustments being made to the following account balances: intangible assets (primarily patents, customer relationships and trade names), inventories, deferred revenue, goodwill and the associated tax effects on the above adjustments. All of these assets and liabilities affected by the July 12, 2007 transaction qualify for the deemed cost exemption with the exception of goodwill. This results in goodwill being re-instated to its original amount prior to the reconsideration event. The effect on the opening statement of financial position on transition to IFRS increases goodwill by $33.6 million and decreases deficit by $33.6 million.

In addition, and as a condition of IFRS 1 for applying this exemption, goodwill relating to business combinations that was acquired prior to Transition date was tested for impairment even though no impairment indicators were identified. No impairment existed at the date of transition.

(6) IAS 1.54 requires income taxes payable to be disclosed on a separate line on the consolidated statement of financial position.

(7) Re-class Other liabilities, Class B Shares and Class C Shares to current liability, as IFRS requires a liability to be disclosed as current if there is an unconditional right to defer settlement of the liability for at least twelve months after the reporting period, whereas Canadian GAAP is less prescriptive and therefore it was classified as a non-current liability.

(8) Please refer to note 18g for details.

18. FIRST TIME ADOPTION OF IFRS (Continued)

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income (loss) and cash flows for prior periods. The Company's first time adoption of IFRS did not have an impact on the total operating, investing or financing cash flows. The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted for equity and net earnings:

Reconciliation of Equity (in thousands of U.S. dollars)

Period ended	Notes	January 2, 2011	April 4, 2010	January 4, 2010
Shareholders' equity under Canadian GAAP - previously reported		**94,808**	**83,238**	**100,689**
Embedded derivative instrument	G	4,910	2,771	2,771
Shareholders' equity under Canadian GAAP - restated		**99,718**	**86,009**	**103,460**
Differences that increase (decrease) reported equity:				
1. Goodwill	A	33,562	33,562	33,562
2. Accrued benefit liability	B, F	(9,884)	(5,510)	(5,325)
3. Provisions	C	—	(1,023)	—
4. Deferred Income tax	E	3,717	5,871	5,631
Total Shareholders' equity under IFRS		**127,113**	**118,909**	**137,328**

Reconciliation of Comprehensive Income (loss) (in thousands of U.S. dollars)

Period ended	Notes	52 weeks Ended January 2, 2011	13 weeks ended April 4, 2010
Comprehensive income (loss) under Canadian GAAP		**3,874**	**(12,960)**
Differences that increase (decrease) reported earnings:			
1. Cost of sales			
i) Employee future benefits	B	476	62
ii) Onerous contract provision	C	—	(1,023)
2. Foreign exchange loss	D	(312)	(247)
3. Income tax expense	E	(3,776)	240
4. Other comprehensive loss	F	(2,861)	—
5. Embedded derivative instrument	G	2,139	—
Comprehensive loss under IFRS		**(460)**	**(13,928)**

Explanation of transition to IFRS

In addition to the exemptions and exceptions discussed above, the following narrative explains the significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS accounting policies applied by the Company. Only the differences having an impact on the Company are described below. The following is not a complete summary of all of the differences between Canadian GAAP and IFRS. Relative to the impacts on the Company, the descriptive caption next to each lettered item below corresponds to the same lettered and descriptive caption in the tables above, which reflect the quantitative impacts from each change. Unless a quantitative impact was noted below, the impact from the change was not material to the Company.

A. Goodwill

As stated in the section entitled "IFRS Exemption Options," the Company applied the exemption in IFRS 1 for business combinations. Consequently, business combinations concluded prior to January 4, 2010 have not been restated. However, the July 12, 2007 transaction is a qualifying event that allows for the application of the *IFRS 1(2008).D8* exemption pertaining to an event-driven fair

18. FIRST TIME ADOPTION OF IFRS (Continued)

market valuation, which allows the fair values determined at a qualifying event to be recorded as deemed cost under IFRS. The following account balances affected by the July 12, 2007 transaction: intangible assets (primarily patents, customer relationships

and trade names), inventories, long-term debt, deferred revenue and the associated tax effects on the above adjustments, qualify for the deemed cost exemption with the exception of goodwill. Goodwill does not qualify for this exemption because it does not meet the definition of a "recognizable intangible" in accordance with IAS 38 and would therefore results in goodwill being re-instated to its original amount prior to the reconsideration event. The effect on the opening statement of financial position on transition to IFRS will increase goodwill by $33.6 million and decrease deficit also by $33.6 million. There is no tax impact of this adjustment.

B. Accrued benefit liability/employee future benefits

As stated in the section entitled "IFRS Exemption Options" the Company elected to recognize all cumulative actuarial gains and losses that existed at the Transition Date in opening deficit for the employee defined benefit pension plan. Actuarial gains and losses are not amortized to the statement of net loss and comprehensive loss but rather are recorded directly to other comprehensive income (loss) at the end of each fiscal period. As a result, the Company adjusted its pension expense to remove the amortization of actuarial gains and losses. As well, IAS 19 requires the past service cost element of defined benefit plans to be expensed on an accelerated basis, with vested past service costs being expensed immediately. This resulted in an increase to the accrued benefit liability of $3.3 million at the Transition date and no amortization of past service costs from that point onward.

C. Onerous contract provision

Under IFRS, provisions for loss-making executory contracts (onerous contracts) are recognized, resulting in an additional provision due to certain sale contracts of the Company. Such provisions were not recognized under Canadian GAAP.

D. Foreign exchange loss

There is a foreign exchange translation effect on the opening IFRS statement of financial position adjustments relating to the Canadian dollar defined benefit pension plan (discussed in B, above).

E. Deferred income taxes/income tax expense

Translation of foreign non-monetary assets and liabilities from local currency to functional currency.

Canadian GAAP - No future tax asset or future tax liability is recognized for exchange gains or losses with respect to the translation of foreign non-monetary assets and liabilities into the functional currency using historical rates for an integrated foreign operation.

IFRS - No temporary difference exemption exists for foreign non-monetary assets and liabilities that are re-measured from the local currency into the functional currency using historical exchange rates. The Company must recognize a deferred tax asset or deferred tax liability for the temporary differences.

F. Other Comprehensive Loss

Actuarial gains and losses on defined benefit pension plan

Canadian GAAP - Actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized on a systematic and consistent basis, subject to a minimum required amortization based on a "corridor" approach. The "corridor" was 10% of the greater of the accrued benefit obligation at the beginning of the year and the fair value of plan assets at the beginning of the year. This excess of 10% is amortized as a component of pension expense on a straight-line basis over the expected average service life of active participants. Actuarial gains and losses below the 10% corridor are deferred.

IFRS - The Company has elected to record net actuarial losses on the defined benefit pension plan of $2,861 (net of income tax recovery of $1,724) as other comprehensive loss.

18. FIRST TIME ADOPTION OF IFRS (Continued)

G. Embedded derivative instrument

In 2011 Q1, an error was discovered pertaining to embedded derivatives associated with the Company's right to prepay the Subordinated Notes (discussed in note 8(a,b)). Management has determined that no adjustment is required to previously issued Canadian GAAP financial statements. The fair value of the embedded derivative are adjusted at each reporting date and recorded as a fair value adjustment in the statement of net loss and comprehensive loss. Accordingly, the error was corrected by recording the fair value of the embedded derivative asset of $2,771 and a corresponding credit to deficit at January 4, 2010. The fair value adjustment to embedded derivative during the 52 week periods ended January 2, 2011 was a gain of $2,139 resulting in an embedded derivative asset of $4,910 as at January 2, 2011.