August 10, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS AND 26-WEEKS ENDED JULY 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 ("2011 Q2") and the 26-week period ("2011 YTD") ended July 3, 2011. 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 C$5.53 principal amount of 14% Subordinated Notes ("Subordinated Notes"), that, together form the income deposit securities of the Issuer ("IDSs"). As of July 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 then 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, the ability to complete the conversion to a common share structure, 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, aggressive competition 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 as required for current business and operational needs, 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 (including the final short form prospectus filed July 7, 2011 and Amendment No. 1 to the final short form prospectus filed July 21, 2011) 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 ("ISE") bankruptcy, costs associated with assessing strategic and corporate initiatives, 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, costs associated with assessing strategic and corporate initiatives, 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-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, increasing fuel prices and environmental concerns for the expansion of transit services and for the exploitation of new technologies to enhance transit's "green" potential.

Government funding levels for transit agencies constitute another essential ingredient for an orderly market, and the current economic and political climate in the United States continues to have an impact on funding challenges faced by transit agencies. Management believes it is too early to predict the outcome on transit funding, with considerably more debate on spending, deficits and taxation expected. The Chair of the House Transportation and Infrastructure Committee recently released the six-year authorization proposal. This legislation covers funding for many transportation programs and activities, the impact of which on transit rolling stock procurements is not yet known. This proposal represents a one-third cut from current 2011 funding levels and represents a 19.5 percent cut from the $286 billion authorized over six years under the current authorizing legislation. In a separate proposal, the Senate Environment and Public Works Committee has proposed a two-year surface transportation authorization bill that would authorize funding for federal fiscal years 2012 and 2013 at current levels, adjusted for inflation.

Operating funds for U.S. transit agencies have been severely impacted by the recession and have resulted in many transit agencies reducing service, increasing fares, and laying off employees. Others are attempting to off-set budget shortfalls with new revenue streams such as the sale of naming rights for stations and routes, advertising on transit system websites and radio and print advertising on buses. State tax collections in the United States continue to show improvement. Preliminary first quarter 2011 data for 47 early-reporting states indicates strong growth of 9.1% for overall tax collections, driven by personal income tax and sales tax revenue. This is the fifth consecutive quarter U.S. States have reported growth, but collections were still lower than when compared to first quarter of 2008. While there are positive indicators that the market is showing signs of revenue growth there is still a considerable lag until that growth converts into increases in heavy-duty transit spending.

Recent Ridership Trends

As a result of the economic downturn and increased unemployment levels in the Unites States, ridership has been declining since 2009 after fifty consecutive years of growth (it is estimated that 60% of transit trips are employment-related). According to American Public Transportation Association, U.S. transit bus ridership appears to be stabilizing and was virtually flat (-0.02%) in the first quarter of 2011 compared to the previous year.

Public transit ridership across Canada showed very strong growth in 2010, with an increase of 4.1% nationally over the previous year. This represents an all-time record with 1.9 billion trips taken, as recently reported by the Canadian Urban Transit Association ("CUTA"). CUTA also reported that the increase in transit ridership in 2010 represented an addition of over 75 million passenger trips from 2009, with such trips being spread across Canada in large and small communities. CUTA stated that many of Canada's smaller communities showed growth, with averages exceeding 5%. Management believes that sustaining this rate of ridership growth, however, requires ongoing government support for expanding transit capacity and service levels through investment in infrastructure and operations. CUTA's most recent national infrastructure survey reported a $53.5 billion need for public transit capital investment for the period 2010-2014, which includes all communities from coast to coast, only 67% of which is fundable under existing programs.

During the first quarter of 2011, eleven key Canadian transit systems reported total ridership for all modes of transit was up slightly (0.12%), and nine of the eleven transit systems reported increases in bus ridership specifically.

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 have become more heavily weighted on price. Management notes that bus competition among the major bus manufacturers in late 2010 and the first half of 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 in order to estimate industry demand. 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 11,800 EUs in New Flyer's current pipeline. However, management believes that although the transit bus potential remains strong in the near term, many customers have deferred procurements which resulted in 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 and 2012, 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.

2011 Second Quarter in Review

In the first quarter of 2011 management and their advisors began to proactively investigate a number of growth and diversification opportunities, including assessing the overall structure and dividend policy of the Company in relation to these opportunities and the ongoing needs of the business. As a result, management and the Board of Directors of NFI (the "Board") believe a conversion to a traditional common share structure, along with an appropriate dividend policy and a flexible credit facility is in the best interest of New Flyer, its investors and other stakeholders. Management believes a non-cash rights offering is the best alternative to facilitate the conversion. A successful conversion transaction, together with the leadership position the Company holds in the heavy-duty transit bus market and the Company's order book will provide New Flyer with a stronger platform and the flexibility needed to pursue strategic opportunities for continued long-term growth and diversification.

New Flyer continues to anticipate some rationalization 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 and its advisors continue to investigate a number of strategic initiatives relating to growth opportunities and the ongoing needs of the business.

Non-cash rights offering

On July 7, 2011 the Company filed a final short form prospectus with the securities regulatory authorities in each of the provinces and territories of Canada in connection with a proposed non-cash rights offering (the "Offering") to convert New Flyer from its current IDS structure to a traditional common share structure. On July 21, 2011, the Company filed Amendment No. 1 to the final short form prospectus.

Pursuant to the Offering, NFI issued to holders of Common Shares, substantially all of which are represented by IDSs, rights ("Rights") to subscribe for and purchase additional Common Shares. Each holder of record of Common Shares as of the close of business on the record date of July 20, 2011 received one Right for each Common Share held:

- Each Right entitles the holder to subscribe for and purchase nine (9) additional Common Shares, such that a holder exercising a Right, following the completion of the Offering, will hold ten (10) Shares;
- Each Right is exercisable only on delivery of C$5.53 principal amount of Subordinated Notes;
- The Rights may not be exercised for cash or any other consideration and subscriptions for Shares will be irrevocable; and
- The Rights will not be independently listed or posted for trading on the Toronto Stock Exchange (the "TSX").

These Rights must be exercised prior to 5:00 p.m. Eastern Time (the "Expiry Time") on August 18, 2011 (the "Expiry Date"). Rights not exercised at or before the Expiry Time on the Expiry Date will be void and have no value.

Reasons for the Offering and Common Share Conversion:

- Structure premised on high cash payout - not supportive of shift to growth and diversification strategy;
- Limited ability to reinvest in the business and pursue growth and diversification opportunities;
- High financial leverage and constrained financial flexibility;
- Impact of exchange rate fluctuations on the value of debt obligations and senior credit financial covenant calculations;
- Mismatch between predominantly US$ operating cash flows and CDN$ denominated debt and financing costs;
- Costly and inefficient to maintain current IDS structure; and
- Capital market constraints for IDS issuers - New Flyer is the only remaining Canadian IDS issuer.

Benefits for New Flyer:

- Enhanced financial flexibility to pursue strategic growth and revenue diversification opportunities;
- Materially reduces total third party indebtedness;
- Reduces risks associated with CDN$ appreciation against US$;
- Enhances access to capital and broadens investor base;
- Lowers cost of capital; and
- Facilitates comparison of New Flyer to other publicly-traded companies.

The Offering is conditional upon a minimum of 50% of the total number of Rights issued being exercised (the "Minimum Condition"). In the event the Minimum Condition is not satisfied, or the Offering is otherwise not completed on the basis that the Board determines prior to the Expiry Date that such a course of action is in the best interest of NFI, the subscription price will be returned to each exercising holder of Rights. The Company reserves the right to waive the Minimum Condition.

On July 20, 2011, the Minister of Finance (Canada) proposed amendments to the *Income Tax Act* (Canada) concerning, among other things, the income tax treatment of publicly-traded "stapled" securities issued by corporations (the "Proposed Amendments"). New Flyer's IDSs would be subject to the Proposed Amendments as "stapled" securities.

If the Proposed Amendments are enacted as proposed, interest that is paid or becomes payable on the Subordinated Notes, will not be deductible in computing the income of NFI ULC for Canadian income tax purposes, which could have the effect of reducing New Flyer's after-tax cash flows and earnings. In the case of New Flyer, the Proposed Amendments provide for a transitional period of continued interest deductibility until January 1, 2016 in respect of interest that is paid or becomes payable during, and is in respect of, such transitional period. The draft income tax legislation giving effect to Proposed Amendments has not yet been released.

As a result of the Offering, any exercise of rights will reduce the aggregate principal amount of Subordinated Notes held in the form of IDSs that would be subject to the interest deductibility limitations under the Proposed Amendments. If all of the rights are exercised, no Subordinated Notes will remain outstanding in the form of IDSs and the interest deductibility limitations of the Proposed Amendments would therefore not be applicable to New Flyer.

Dividend Policy

It is the Board's intent to have a common share dividend policy that is consistent with New Flyer's long-term financial performance and the need to retain certain cash flows to support the ongoing requirements of the business and to provide the financial flexibility to pursue revenue diversification and growth opportunities. Accordingly, New Flyer currently anticipates establishing no later than August 2012, an annualized dividend equal to approximately 50% of the previous annual IDS distribution level of C$1.17 per IDS (based on the aggregate number of Shares held by an IDS holder immediately following the exercise of one Right).

Compared to other common share issuers listed on the TSX, the Board believes this level of dividend will provide investors with an attractive level of current income. This new dividend policy reflects a shift from the previous distribution policy, pursuant to which substantially all of New Flyer's available cash flow was distributed to IDS holders. The Board believes that this new dividend level will enhance the financial flexibility of New Flyer to fund growth capital expenditures, acquisitions and other internal financing needs.

New Flyer decreased IDS distributions from C$1.17 per annum to C$0.86 per annum (the "Special Distribution"), effective with the July 2011 distribution, payable on or about August 15, 2011 to IDS holders of record on July 29, 2011. The total IDS cash distribution for the month of July 2011 is C$0.07167 per IDS and reflects a cash dividend of C$0.00715 per Common Share and an interest payment of C$0.06452 per Subordinated Note for the period from July 1, 2011 to July 31, 2011.

The Special Distribution is expected to consist of an annual dividend payment of C$0.086 per Share and an annual interest payment of C$0.774 per Subordinated Note (compared to the old annual distribution level of C$1.17 per IDS, comprised of an annual dividend payment of C$0.396 per Share and an annual interest payment of C$0.774 per Subordinated Note). A holder of IDSs that exercises a Right and continues to hold all corresponding Shares can expect to receive, during the period in which the Special Distribution is paid, cumulative annual dividends of C$0.86 per IDS previously held, comprised entirely of dividend income. If the Minimum Condition is satisfied or waived, the Board expects to maintain this Special Distribution on a monthly basis until no later than August 2012, the month during which NFI ULC first has the option to redeem the Subordinated Notes, although such distributions are not assured. On a pre-tax basis, exercise of Rights will not change the aggregate amount of distributions that a current holder of an IDS can expect to receive (based on the aggregate number of Shares held by such holder immediately following such exercise for the period during which the Special Distribution is paid), relative to an IDS holder that does not exercise Rights.

If the Minimum Condition is not satisfied or waived, NFI intends to suspend the declaration and payment of dividends on the Shares effective with the August 2011 distribution which would be payable on or about September 15, 2011, resulting in an annualized distribution of C$0.774 per IDS (representing only the interest payment on the Subordinated Notes).

Amended and Restated Senior Credit Agreement

On July 27, 2011, the Company entered into an amended and restated credit facility agreement (the "New Credit Facility") with The Bank of Nova Scotia and Bank of Montreal, as co-lead arrangers and joint book runners, and a syndicate of leading Canadian and American financial institutions in the amount of US$195 million. The New Credit Facility refinances New Flyer's existing senior credit facility which was scheduled to mature in April 2012. The New Credit Facility matures on April 24, 2014 and consists of a US$105 million term loan (including a US$15 million delayed draw loan) and a US$90 million revolver (including a US$55 million letter of credit sub-facility).

The New Credit Facility materially relaxes the following financial covenants as compared to the previous credit facility:

- A relaxed maximum total leverage covenant which has increased from 4.75 to 5.25 times Adjusted EBITDA (as defined in the New Credit Facility);
- Until December 31, 2011, the addition of a significant cushion of US$7.5 million to the excess cash flow requirement for dividend payments; and
- The fixed charge coverage ratio threshold for dividend payments has been reduced from 1.25 to 1.20 times Adjusted EBITDA.

The New Credit Facility provides further financial covenant relaxation if the Minimum Condition is satisfied. If the Minimum Condition is satisfied, the following further relief to financial covenants would be realized:

- The excess cash flow cushion would increase to US$15 million (beginning on the date the Minimum Condition is satisfied and ending on September 30, 2012);
- The fixed charge coverage ratio threshold for dividend payments would drop further to 1.15 times Adjusted EBITDA; and
- The maximum senior leverage ratio covenant would increase from 2.25 to 2.50 times Adjusted EBITDA.

As well, an accordion feature providing the Company with access to a further US$75 million of term loan facilities to fund strategic growth and revenue diversification initiatives also becomes available if the Minimum Condition under the Offering and certain other conditions are satisfied. The New Credit Facility also provides for additional headroom with respect to limits on operational activities such as future acquisitions.

In connection with the New Credit Facility, the Company has rolled over the existing interest rate swap designed to hedge floating rate exposure for the term of the New Credit Facility on the US$90 million of drawn term loan. The new interest rate swap fixes the interest rate at 1.90% plus the applicable interest margin until April 2014. In comparison, the interest rate swap in place prior to the closing of the New Credit Facility fixed the interest rate at 2.61% plus the applicable interest margin until April 2012.

Based on the interest rate applicable to the term portion of the New Credit Facility and the terms of the swap, management expects that the overall interest costs of the US$90 million drawn term loan portion of the New Credit Facility will be less than the amount under the previous credit facility and interest rate swap.

Order activity in 2011 Q2

During 2011 Q2, New Flyer order activity consisted of 952 buses or 1,040 EUs, with a total value of $466 million. This order activity comprises new firm and new option orders of 381 buses (398 EUs) and exercised options of 571 buses (642 EUs). The order intake level was 304% higher than the intake level during the 13-week period ended April 3, 2011 ("2011 Q1"), but was 47% lower than in during the 13-week period ended July 4, 2010 ("2010 Q2"). This allowed the Company to maintain the total order backlog (including firm orders and options) to approximately $3.52 billion (representing 8,271 EUs) as at July 3, 2011 which decreased 0.6% compared to approximately $3.54 billion (representing 8,339 EUs) as at April 3, 2011. New Flyer's option backlog includes the widest available range of bus models, lengths, and propulsion options for prospective customers and with the 701 EUs added to the firm backlog, the Company is positioned to continue its line entry operating plan of 36 EUs per week for the balance of 2011 and into the first quarter of 2012.

Deliveries in 2011 Q2 were 431 EUs and, as a result, new firm orders and options received in the quarter of 398 EUs represent 92% 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 when compared on an annual basis. Over the past four quarters the company has delivered 1,924 EUs and received new orders (firm and options) totaling 1,591 EUs. This ratio of new orders received to deliveries, at 0.83 to 1, trails the approximately 1.0 to 1.0 ratio seen over the previous three quarters. In comparison, the annual ratio of new orders received to deliveries was approximately 0.75 to 1 in the first half of fiscal 2010.

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

The Company's aftermarket parts gross order backlog for core sales activity as at the end of 2011 Q2 has remained consistent with the level at the end of 2011 Q1. Gross orders received for core aftermarket parts sales during 2011 Q2 exceeded the average of gross orders received in the previous 4 quarters by 7.7%.

The Company is currently in the process of opening an Ontario Parts Distribution Center ("PDC") in the Greater Toronto and Hamilton Area in the fourth quarter of 2011. 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.

During 2011 Q2, New Flyer completed shipment of its first order of ten pre-owned articulated buses, following refurbishing activities undertaken in the Company's Arnprior Service Centre. As previously stated, revenue from the sale of these used buses is recorded in the results of Company aftermarket operations and accordingly, the used buses are not reflected in the bus order backlog. The delivery of these first ten pre-owned buses had a favourable impact on the contribution margin of the Company's aftermarket operations.

The Company has also been recently awarded two new contracts, one with the Washington Metropolitan Area Transit Authority ("WMATA") and one with Maryland Transit Administration ("MTA") to provide Vendor-Managed Inventory ("VMI") services. Both transit properties are existing customers of New Flyer for the provision of new buses and spare parts.

WMATA awarded New Flyer a contract to provide VMI for an assortment of transit bus spare parts. The contract is for a one-year term with two additional one-year terms, and the base contract is valued at approximately $2.1 million annually. This program will require New Flyer to provide vendor inventory planning, and automated supply and replenishment of select spare parts under a strict performance program requiring defined response times and fill rates. New Flyer will also provide maintenance engineering support to analyze material usage and to provide recommendations through the use of reliability engineering.

In addition, New Flyer has been awarded a contract with MTA to supply point-of-use brake kits for a number bus models manufactured by a variety of original equipment manufacturers, including New Flyer. The contract is for five years and is valued at approximately $1.7 million annually. This award represents a strategic win for New Flyer confirming the Company's ability to be competitive in these types of specialized maintenance areas of the bus, and demonstrates New Flyer's leadership role in the development of customer brake programs which the Company provides to other agencies.

Fiscal 2011 Second Quarter Financial Results

Consolidated revenue for 2011 Q2 of $225.9 million decreased 19.5% from consolidated revenue for 2010 Q2 of $280.5 million, and consolidated revenue for 2011 YTD of $440.2 million decreased 15.9% from consolidated revenue for the 26-week period ended July 4, 2010 ("2010 YTD") of $523.5 million. These results should be considered in the context of the market dynamics the Company has experienced over the last year.

Revenue from bus manufacturing operations for 2011 Q2 was $194.7 million, a decrease of 23.1% from $253.1 million in 2010 Q2, and revenue of $382.2 million for 2011 YTD decreased 18.5% from $469.2 million for 2010 YTD. The decrease in 2011 Q2 primarily resulted from a 20.9% decrease in total bus deliveries of 431 EUs in 2011 Q2 compared to 2010 Q2 deliveries of 545 EUs and a 2.7% decrease in average selling price per EU in 2011 Q2 compared to 2010 Q2. The average selling price per EU in 2011 Q2 was $451.8 thousand which decreased compared to $464.4 thousand in 2010 Q2 and similarly decreased to $425.1 thousand in 2011 YTD from $470.1 thousand in 2010 YTD. The decrease in average bus selling price is attributed to price pressure and a mix of products sold with a lower selling price, primarily articulated buses. Bus deliveries in 2011 YTD totaled 899 EUs decreased 9.9% compared to 998 EUs in 2010 YTD. The 2011 YTD decrease is partly due to a reduction in production rates in 2011 YTD compared to 2010 YTD to meet management's plan for a sustainable production rate for the 2011 fiscal year.

Revenue from aftermarket operations in 2011 Q2 of $31.1 million increased 13.3% compared to $27.5 million in 2010 Q2, resulting from increased U.S. sales and $1.9 million related to the delivery of the first 10 used buses. The company has orders for 3 other used buses for which the refurbishment work is underway. Revenue will be recognized upon delivery in the third quarter of 2011. Revenue from aftermarket operations for 2011 YTD was $58.0 million in 2010 YTD compared to $54.3 million in 2010 YTD, an increase of 6.8%. The increase in 2011 YTD aftermarket operations revenue is primarily a result of the used bus sales and the favourable impact of the stronger Canadian dollar on translation of Canadian dollar sales to U.S. dollars. Aftermarket operations revenue has increased in the U.S. market, while experiencing some reduction in sales in the Canadian market throughout 2011 YTD during the current soft U.S. market.

Consolidated Adjusted EBITDA for 2011 Q2 totaled $20.0 million compared to $33.3 million in 2010 Q2, which represents a decrease of 39.8%. In comparing the respective periods, this decrease in consolidated Adjusted EBITDA is primarily due to 20.9% fewer deliveries, contract runs with lower average contract margins in the bus manufacturing operations sales mix during 2011 Q2 as compared to 2010 Q2 and the net impact of the appreciation of the value of the Canadian dollar compared to the U.S. dollar which resulted in a decrease to Adjusted EBITDA of approximately $0.5 million in 2011 Q2 compared to 2010 Q2 ($0.8 million decrease in bus manufacturing operations offset by a $0.3 million increase in aftermarket operations). The decrease in bus manufacturing operations is primarily the result of lower contract margins related to lower average selling prices due to industry wide price pressure offset somewhat by increased efficiency due to the Company's Operational Excellence ("OpEx") program.

2011 Q2 bus manufacturing operations Adjusted EBITDA of $12.7 million decreased 53.1% compared with 2010 Q2 bus manufacturing operations Adjusted EBITDA of $27.0 million. This decrease is primarily the result of lower volumes, the foreign exchange impact that the weakening U.S. dollar had on 2010 Q2 Canadian bus sales and lower contract margins related to lower average selling price offset by increased OpEx efficiencies. 2011 Q2 aftermarket operations Adjusted EBITDA of $7.4 million (23.6% of revenue) increased 17.4%

compared to $6.3 million (22.8% of revenue) in 2010 Q2, primarily due to the $0.9 million of the increase Adjusted EBITDA which resulted from the sale of used buses. A normalized 2011 Q2 aftermarket operations Adjusted EBITDA would have been of $6.5 million (20.6% of revenue) which highlights the lower margins due to pricing pressure caused by the current aftermarket industry contraction.

2011 YTD consolidated Adjusted EBITDA of $42.0 million (9.6% of revenue) decreased by 22.6% compared to 2010 YTD consolidated Adjusted EBITDA of $54.3 million (10.4% of revenue). Bus manufacturing operations Adjusted EBITDA of $29.0 million for 2011 YTD decreased 30.1% compared to $41.5 million for 2010 YTD bus manufacturing operations Adjusted EBITDA. This decrease in Adjusted EBITDA is primarily a result of sales mix with lower average margins and reduced delivery levels in 2011 YTD that primarily occurred in 2011 Q2 partially offset by $1.2 million favourable foreign currency impact due to the appreciation of the value of the Canadian dollar against the U.S. dollar in 2011 YTD. Aftermarket operations Adjusted EBITDA for 2011 YTD of $13.0 million (22.4% of revenue) represents an increase of 2.0% over 2010 YTD aftermarket operations Adjusted EBITDA of $12.7 million (23.4% of revenue).

The Company reported a net loss of $7.3 million in 2011 Q2 compared to net earnings of $33.2 million in 2010 Q2. The decrease in net earnings in 2011 Q2 is primarily attributable to a $14.5 million decrease in earnings from operations (including $1.3 million for assessing strategic and corporate initiatives), a $22.0 million decrease in non-cash charges recovered to earnings and a $3.9 million increase in income tax provisions when comparing the two periods. The change in non-cash items included in earnings relates primarily to unrealized foreign exchange, fair value adjustments to assets and liabilities and amortization. Unrealized foreign exchange gain credited to earnings in 2011 Q2 was $0.3 million compared to a gain of $14.3 million in 2010 Q2 and relate to unrealized foreign exchange on the Subordinated Notes, both forming part of the IDSs and issued separately from the IDSs. Realization of these losses/gains is dependent on the exchange rate on the maturity date (August 2020) of the Canadian dollar denominated Subordinated Notes. The increase in income taxes when comparing the two periods was primarily the result of an $8.8 million increase in future income taxes offset by a $5.0 million decrease in current income taxes. Similar to 2011 Q2, 2011 YTD net loss of $13.7 million compared to 2010 YTD net earnings of $19.2 million, due to decreases in earnings from operations, reduction in non-cash charges recovered to earnings and increase in future taxes. Although, not evident in the current period due to timing of certain non-taxable income and non-deductible expenses in 2011 Q2, 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. During 2011 YTD, the Company spent $2.3 million in costs to investigate a number of potential acquisitions and strategic relationships to allow management to actively execute on its strategic plan to grow and diversify the business.

The Company generated Distributable Cash of C$17.8 million during 2011 Q2 and declared distributions of C$14.5 million, which represents a 2011 Q2 payout ratio of 81.2%. The Company's 2011 Q2 Distributable Cash benefited from a $3.2 million current income tax recovery. By comparison, in 2010 Q2, the Company generated Distributable Cash of C$27.4 million and declared distributions of C$14.1 million, representing a payout ratio of 51.3%. During 2011 YTD, New Flyer generated Distributable Cash of C$32.1 million and declared distributions of C$28.9 million, representing a payout ratio of 90.1%. In comparison, 2010 YTD Distributable Cash and declared distributions were C$42.0 million and C$28.6 million, respectively, representing a payout ratio of 68.1%. Cumulatively, since the initial public offering on August 19, 2005 (the "IPO"), the Company has generated Distributable Cash of C$392.7 million and has declared distributions of $317.1 million, resulting in a cumulative surplus of C$75.6 million and a payout ratio of 80.7%.

During 2011 Q2, the Company increased its cash by $7.3 million primarily due to decrease in the investment in non-cash working capital by $6.7 million, primarily as a result of decreased accounts receivables, increase in accounts payable and deferred revenue partially offset by an increase in inventory which is primarily a result of the change in product mix in production. Total units in inventory at the end of 2011 Q2 increased to 236 EUs from 218 EUs. The total units in inventory was made up of 12 EUs of finished goods and 224 EUs of Work in Process ("WIP"), which is slightly higher than WIP range for Fiscal 2011 of 200 to 220 that was previously estimated.

The July 3, 2011 liquidity position of $75.1 million is comprised of cash of $25.1 million and a $50.0 million secured revolving credit facility. As at July 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.

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	Q2	$ 225,853	$ 12,811	$ (7,319)	$ 18,765	$ 20,037	(0.15)
	Q1	214,344	14,991	(6,361)	20,943	21,989	(0.13)
	Total	**$ 440,197**	**$ 27,802**	**$ (13,680)**	**$ 39,708**	**$ 42,026**	**(0.28)**
2010	Q4	$ 204,791	$ 11,578	$ (13,623)	$ 9,138	$ 17,822	(0.28)
	Q3	255,447	19,052	(3,215)	25,158	25,163	(0.06)
	Q2	280,540	27,284	33,167	33,183	33,310	0.70
	Q1	242,980	15,310	(13,928)	20,987	20,987	(0.29)
	Total	**$ 983,758**	**$ 73,224**	**$ 2,401**	**$ 88,466**	**$ 97,282**	**0.08**
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)**

						Inventory comprised of:	
Fiscal Period	Quarter	Inventory, Beginning (equivalent units)[2]	New Line Entry (equivalent units)[2]	Deliveries (equivalent units)[2]	Inventory, Ending (equivalent units)[2]	Work in process (equivalent units)[2]	Finished goods (equivalent units)[2] & [4]
2011	Q2	218	449	431	236	224	12
	Q1	209	477	468	218	200	18
	Total	**209**	**926**	**899**	**236**	**224**	**12**
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 SECOND QUARTER AND TRAILING TWELVE MONTHS RESULTS

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

	13-Weeks Ended July 3, 2011	13-Weeks Ended July 4, 2010	26-Weeks Ended July 3, 2011	26-Weeks Ended July 4, 2010	52-weeks Ended July 3, 2011	52-weeks Ended July 4, 2010[5]
Statement of Earnings Data						
Revenue						
Canada	$ 35,420	$ 26,045	$ 120,879	$ 74,956	$ 315,866	$ 243,402
U.S.	159,303	227,027	261,302	394,223	475,218	726,853
Bus manufacturing operations	194,723	253,072	382,181	469,179	791,084	970,255
Canada	9,726	9,934	18,855	19,944	36,496	38,016
U.S.	21,404	17,534	39,161	34,397	72,855	68,254
Aftermarket operations	31,130	27,468	58,016	54,341	109,351	106,270
Total revenue	$ 225,853	$ 280,540	$ 440,197	$ 523,520	$ 900,435	$ 1,076,525
Earnings from operations	$ 12,811	$ 27,284	$ 27,802	$ 42,594	$ 58,432	$ 85,474
Earnings before interest and income taxes	6,931	43,369	16,370	44,900	21,125	60,177
Net (loss) earnings	(7,319)	33,167	(13,680)	19,239	(30,518)	2,402
EBITDA[1]	18,765	33,183	39,708	54,170	74,004	108,452
Adjusted EBITDA[1]						
Bus manufacturing operations including realized foreign exchange losses/gains	12,682	27,044	29,048	41,568	60,704	84,451
Aftermarket operations	7,355	6,266	12,978	12,729	24,307	24,128
Total Adjusted EBITDA[1]	$ 20,037	$ 33,310	$ 42,026	$ 54,297	$ 85,011	$ 108,579
Other Data (unaudited)						
Canada	80	54	333	157	905	511
U.S.	351	491	566	841	1,019	1,593
Total deliveries (equivalent units)[2]	431	545	899	998	1,924	2,104
Total capital expenditures	$ 1,155	$ 1,889	$ 2,570	$ 3,596	$ 6,659	$ 10,105
New options awarded	$ 143,985	$ 92,221	$ 159,540	$ 92,221	$ 445,352	$ 341,460
New firm orders awarded	28,193	190,759	76,021	196,067	251,663	288,104
Exercised options	299,677	118,550	329,849	183,623	491,171	448,896
Total firm orders	$ 327,870	$ 309,309	$ 405,870	$ 379,690	$ 742,834	$ 737,000

(Unaudited, US dollars in thousands)	July 3, 2011		January 2, 2011		January 3, 2010	
Selected Balance Sheet Data						
Total assets	$ 870,669		$ 848,933		$ 899,943	
Long-term financial liabilities	470,142		549,865		516,425	
Other Data (unaudited)		Equivalent Units(2)		Equivalent Units(2)		Equivalent Units(2)
Firm orders - USA	$ 794,334	1,709	$ 694,141	1,518	$ 884,347	1,876
Firm orders – Canada	79,623	178	138,517	379	93,407	206
Total firm orders	873,957	1,887	832,658	1,897	977,754	2,082
Options – USA	2,475,478	5,957	2,761,784	6,610	2,653,326	6,365
Options - Canada	175,095	427	83,713	205	217,042	543
Total options	2,650,573	6,384	2,845,497	6,815	2,870,368	6,908
Total Backlog	$ 3,524,530	8,271	$ 3,678,155	8,712	$ 3,848,122	8,990

Equivalent Units in Backlog (unaudited)	26 Weeks Ended July 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	161	387	1,013	914	444	1,402
Options exercised	728	(728)	825	(825)	1,397	(1,397)
Shipments	(899)	—	(2,023)	—	(2,257)	—
Cancelled/expired	—	(90)	—	(182)	—	(130)
End of period	1,887	6,384	1,897	6,815	2,082	6,908

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

2011	439
2012	1,963
2013	2,885
2014	526
2015	528
2016	43
Total options	6,384

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 or “EU” represents one 30-foot, 35-foot or 40-foot heavy-duty transit bus. One 60-foot articulated bus represents two equivalent units or “EUs”.

(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 July 3, 2011	13-Weeks Ended July 4, 2010	26-Weeks Ended July 3, 2011	26-Weeks Ended July 4, 2010	52-weeks Ended July 3, 2011	52-Weeks Ended July 4, 2010[7]
Net (loss) earnings	$ (7,319)	$ 33,167	$ (13,680)	$ 19,239	$ (30,518)	$ 2,402
Addback[1]						
Income taxes	817	(3,033)	3,454	(2,121)	(709)	4,668
Interest expense	13,433	13,235	26,596	26,156	52,352	50,752
Amortization	5,954	6,026	11,906	11,703	24,261	23,237
Gain on disposal of property, plant and equipment	—	—	—	(16)	(7)	(230)
Non-cash impact of embedded derivative	—	—	—	—	—	(132)
Fair value adjustment to embedded derivatives	6,172	—	2,505	—	366	259
Fair value adjustment to other liabilities – Class B Shares and Class C Shares	—	(1,923)	—	22	—	1,575
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	(292)	(14,289)	8,927	(2,439)	28,259	23,566
EBITDA[2]	18,765	33,183	39,708	54,170	74,004	108,452
Costs associated with assessing strategic and corporate initiatives[8]	1,272	—	2,318	—	2,318	—
Warranty expense assumed from the ISE bankruptcy[6]	—	—	—	—	8,684	—
Business acquisition related cost[3]	—	127	—	127	5	127
Adjusted EBITDA[2]	$ 20,037	$ 33,310	$ 42,026	$ 54,297	$ 85,011	$ 108,579
Adjusted EBITDA translated to C$ at an average foreign exchange rate[5]	$ 19,288	$ 34,752	$ 40,799	$ 56,670	$ 84,807	$ 115,154

RECONCILIATION OF CASH FLOW TO EBITDA AND ADJUSTED EBITDA

(Unaudited, US dollars in thousands)	13-Weeks Ended July 3, 2011	13-Weeks Ended July 4, 2010	26-Weeks Ended July 3, 2011	26-Weeks Ended July 4, 2010	52-weeks Ended July 3, 2011	52-Weeks Ended July 4, 2010[7]
Cash provided (used) by operations	$ 14,096	$ 23,228	$ (36,341)	$ (3,914)	$ 38,283	$ 55,285
Addback[1]						
Changes in non-cash working capital items	(6,733)	(4,779)	46,020	26,639	(17,645)	(12,481)
Defined benefit funding	1,336	921	2,469	1,557	5,136	4,254
Defined benefit expense	(457)	(415)	(913)	(831)	(1,472)	(1,546)
Interest expense	13,487	12,732	26,837	25,032	52,408	48,989
Distributions on Class B Shares and Class C Shares	—	—	—	1,626	—	2,355
Warranty expense assumed from the ISE bankruptcy	—	—	—	—	(8,684)	—
Foreign exchange gain on cash held in foreign currency	262	(239)	2,022	44	3,981	13
Current income taxes[4]	(3,226)	1,735	(386)	4,017	1,997	11,583
EBITDA[2]	18,765	33,183	39,708	54,170	74,004	108,452
Costs associated with assessing strategic and corporate initiatives[8]	1,272	—	2,318	—	2,318	—
Warranty expense assumed from the ISE bankruptcy[6]	—	—	—	—	8,684	—
Business acquisition related cost[3]	—	127	—	127	5	127
Adjusted EBITDA[2]	$ 20,037	$ 33,310	$ 42,026	$ 54,297	$ 85,011	$ 108,579
Adjusted EBITDA translated to C$ at an average foreign exchange rate[5]	$ 19,288	$ 34,752	$ 40,799	$ 56,670	$ 84,807	$ 115,154

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 July 3, 2011	13-Weeks Ended July 4, 2010	26-Weeks Ended July 3, 2011	26-Weeks Ended July 4, 2010	Cumulative since IPO on August 19, 2005[16]
Cash provided by operations	$ 14,096	$ 23,228	$ (36,341)	$ (3,913)	$ 72,821
Changes in non-cash working capital items[6]	(6,733)	(4,779)	46,020	26,639	49,941
Capital adjustments					
Maintenance capital expenditures[7]	(464)	(1,026)	(898)	(1,718)	(12,491)
Principal portion of capital lease payments	(671)	(624)	(1,349)	(1,213)	(8,785)
Non-recurring adjustments					
Follow-on Offerings related costs	—	—	—	—	963
Proceeds from sale of redundant assets	—	—	—	16	747
Fair market value adjustments [8]	—	—	—	—	15,713
Business acquisition related cost [15]	—	127	—	127	132
Costs associated with assessing strategic and corporate initiatives[17]	1,272	—	2,318	—	2,318
Withholding taxes[9]	—	—	—	—	9,111
Entity specific adjustments					
Distributions on Class B Shares and Class C Shares[10]	—	—	—	1,626	65,100
Interest on Subordinated Notes forming part of IDSs[10]	9,863	9,038	19,763	17,956	153,354
Defined benefit funding[11]	1,336	921	2,469	1,557	19,856
Defined benefit expense[11]	(457)	(415)	(913)	(831)	(9,519)
Foreign exchange gain on cash held in foreign currency[12]	262	(239)	2,022	44	5,478
Distributable Cash (US$)[1]	18,504	26,231	33,091	40,290	364,739
U.S. exchange rate[2]	0.9626	1.0433	0.9708	1.0437	1.0767
Distributable Cash[1] (C$)	**17,812**	**27,367**	**32,125**	**42,051**	**392,722**
Distributable Cash per unit[14] (C$)	0.36	0.57	0.65	0.84	7.53
Summary of Cash Distributions:[3]					
Interest on Subordinated Notes forming part of IDSs (C$)	9,572	9,298	19,144	18,457	163,924
Dividends on Common Shares forming part of IDSs (C$)	4,895	4,754	9,791	9,437	81,346
Dividends on Class C Shares (C$)	—	—	—	1,398	69,575
Dividends on Class B Shares (C$)	—	—	—	316	7,305
Net loan (repaid from) advanced to New Flyer LLC (C$)[13]	—	—	—	(969)	(95)
Foreign currency impact on dividends on Class B Shares and Class C Shares (C$)[4]	—	—	—	—	(4,956)
Total Cash Distributions (C$)	**14,467**	**14,052**	**28,935**	**28,639**	**317,099**
Total Cash Distributions per unit[14] (C$)	0.29	0.28	0.58	0.57	6.08
Excess of Distributable Cash (C$)	**3,345**	**13,315**	**3,190**	**13,412**	**75,623**
Excess of Distributable Cash per unit[14] (C$)	$ 0.07	$ 0.29	$ 0.07	$ 0.27	$ 1.45
Payout ratio	81.2%	51.3%	90.1%	68.1%	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 July 3, 2011	**13-Weeks Ended July 4, 2010**	**26-Weeks Ended July 3, 2011**	**26-Weeks Ended July 4, 2010**	**Cumulative since IPO on August 19, 2005**
Total Cash Distributions (C$):					
Interest on Subordinated Notes (C$)	0.1936	0.1936	0.3872	0.3872	4.5442
Dividends on Common Shares (C$)	0.0989	0.0989	0.1978	0.1978	2.1985
Total Distribution (C$)[3]	0.2925	0.2925	0.5850	0.5850	6.7427
Issued and outstanding Common Shares including IDSs [5]	49,475,279	47,583,254	49,475,279	47,453,177	36,433,810
Dividends per Class C Share (C$):[3]					
Preferential Dividend (C$)	—	—	—	0.2834	2.2347
Residual Dividend (C$)	—	—	—	0.3971	1.8523
Total Cash Dividend (C$)	—	—	—	0.6805	4.0870
Issued and outstanding Class C Shares[5]	—	1,917,107	—	1,985,327	14,203,649
Dividends per Class B Share (C$):[3]					
Preferential Dividend (C$)	—	—	—	0.2834	2.2347
Residual Dividend (C$)	—	—	—	0.3971	1.8523
Total Cash Dividend (C$)	—	—	—	0.6805	4.0870
Issued and outstanding Class B Shares[5]	—	433,053	—	448,464	1,491,491
Total of all issued and outstanding Shares including IDSs[5]	49,475,279	49,933,414	49,475,279	49,886,968	52,128,950

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 July 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 July 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 July 3, 2011**	**26-Weeks Ended July 3, 2011**	**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)	$ 23,959	$ (16,578)	$ 108,762	$ 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)	17,226	29,442	72,209	71,411
C. Net earnings (excluding interest on Subordinated Notes forming part of IDSs and distributions on Class B Shares and Class C Shares)	2,544	2,416	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)	12,811	27,802	73,225	77,487
E. Distributable Cash	18,504	33,091	70,895	69,994
F. Actual cash distributions paid or payable relating to the period	15,029	29,774	55,587	50,986
G. Excess (shortfall) of cash flows from operating activities (adjusted as described above) over cash distributions paid (A – F)	8,930	(46,352)	53,337	9,126
H. Excess (shortfall) of cash flows from operating activities before changes in non-cash working capital items (adjusted as described above) over cash distributions paid (B – F)	2,197	(332)	16,622	20,425
I. Shortfall of net earnings (adjusted as described above) over cash distributions paid (C – F)	(12,485)	(27,358)	(15,137)	(47,073)
J (Shortfall) excess of earnings from operations (adjusted as described above) over cash distributions paid (D – F)	(2,218)	(1,972)	17,276	26,501
K. Excess of Distributable Cash over cash distributions paid (E – F)	3,475	3,317	15,308	19,008

The Company generates its Distributable Cash from its cash flows from operations and its earnings from operations and management expects 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. For example, assuming the Company's net assets are predominately originating in Canadian dollar and 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 July 3, 2011, 9.1% 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.

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 Q2, the realized foreign exchange gains of $0.5 million was comprised of $0.3 million gain on settlement of foreign exchange contracts and a $0.2 million foreign currency gain due to translation of Canadian dollar-denominated operations and distributions.

At July 3, 2011, the Company had $63.5 million foreign exchange forward contracts to buy Canadian dollars at a weighted average agreed Canadian/U.S. dollar foreign exchange rate of $0.9694 that expire in August 2011. The related asset of $0.7 million is recorded on the interim condensed consolidated 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 interim condensed consolidated statements of comprehensive loss.

Fiscal and Interim Periods

Fiscal 2011 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 Q2 (13-Weeks)	2010 Q2 (13-Weeks)	2011 YTD (26-Weeks)	2010 YTD (26-Weeks)
Bus Manufacturing Revenue	$ 194,723	$ 253,072	$ 382,181	$ 469,179
Aftermarket Revenue	31,130	27,468	58,016	54,341
Total Revenue	$ 225,853	$ 280,540	$ 440,197	$ 523,520
Earnings from operations	12,811	27,284	27,802	42,594
Earnings before interest and income taxes	6,931	43,369	16,370	44,900
(Loss) earnings before income taxes	(6,502)	30,134	(10,226)	17,118
Net (loss) earnings for the period	(7,319)	33,167	(13,680)	19,239

Revenue

Consolidated revenue for 2011 Q2 of $225.9 million decreased 19.5% from consolidated revenue for 2010 Q2 of $280.5 million, and consolidated revenue for 2011 YTD of $440.2 million decreased 15.9% from consolidated revenue for 2010 YTD of $523.5 million. These results should be considered in the context of the market dynamics the Company has experienced over the last year.

Revenue from bus manufacturing operations for 2011 Q2 was $194.7 million, a decrease of 23.1% from $253.1 million in 2010 Q2, and revenue of $382.2 million for 2011 YTD decreased 18.5% from $469.2 million for 2010 YTD. The decrease in 2011 Q2 primarily resulted from a 20.9% decrease in total bus deliveries of 431 EUs in 2011 Q2 compared to 2010 Q2 deliveries of 545 EUs and a 2.7% decrease in average selling price per equivalent unit in 2011 Q2 compared to 2010 Q2. The average selling price per EU in 2011 Q2 was $451.8 thousand which decreased compared to $464.4 thousand in 2010 Q2 and similarly decreased in 2011 YTD to $425.1 thousand from $470.1 thousand in 2010 YTD. The decrease in average bus selling price is attributed to price pressure and a mix of products sold with a lower selling price, primarily articulated buses. Bus deliveries in 2011 YTD totaled 899 EUs decreased 9.9% compared to 998 equivalent units in 2010 YTD. The 2011 YTD decrease is partly due to a reduction in production rates in 2011 YTD compared to 2010 YTD to meet management's plan for a sustainable production rate for the 2011 fiscal year.

Revenue from aftermarket operations in 2011 Q2 of $31.1 million increased 13.3% compared to $27.5 million in 2010 Q2, resulting from increased U.S. sales and $1.9 million related to the delivery of the first 10 used buses. The company has orders for 3 other used buses for which the refurbishment work is underway. Revenue will be recognized upon delivery in the third quarter of 2011. Revenue from aftermarket operations for 2011 YTD was $58.0 million in 2010 YTD compared to $54.3 million in 2010 YTD, an increase of 6.8%. The increase in 2011 YTD aftermarket operations revenue is primarily a result of the used bus sales and the favourable impact of the stronger Canadian dollar on translation of Canadian dollar sales to U.S. dollars. Aftermarket operations revenue has increased in the U.S. market, while experiencing some reduction in sales in the Canadian market throughout 2011 YTD during the current soft U.S. market.

Cost of sales

The consolidated cost of sales for 2011 Q2 of $202.8 million decreased 17.1% from 2010 Q2 consolidated cost of sales of $244.6 million. 2011 YTD consolidated cost of sales of $390.3 million decreased by 15.0% from 2010 YTD of $459.1 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 Q2 were $181.4 million decreased 19.7% compared to $225.8 million in 2010 Q2. Whereas, the cost of sales from bus manufacturing operations of $350.2 million in 2011 YTD decreased by 17.1% as compared to $422.3 million in 2010 YTD. The decrease in cost of sales from bus manufacturing operations for 2011 YTD primarily relates to the corresponding decrease in revenue resulting from a reduction in deliveries and a sales mix comprised of lower costing buses, as evidenced by the 9.6% reduction in selling price when comparing the two periods.

The cost of sales from aftermarket operations were $21.4 million in 2011 Q2 which increased 14.1% compared to $18.8 million in 2010 Q2, and $40.1 million in 2011 YTD as compared to $36.8 million in 2010 YTD, an increase of 9.1%. The increase in aftermarket operations cost of sales for 2011 Q2 and 2011 YTD primarily relates to the increase in sales volumes, cost of used buses sold and a mix of higher dollar items sold when comparing the two periods.

Selling, general and administrative costs and other expenses ("SG&A")

The consolidated selling, general and administrative cost and other expenses for 2011 Q2 of $10.7 million increased 1.6% compared with $10.5 million in 2010 Q2. Consolidated selling, general and administrative cost and other expenses for 2011 YTD were $23.2 million which remained fairly unchanged compared with $23.1 million in 2010 YTD.

The 2011 Q2 SG&A costs include $1.3 million of incremental costs to assess strategic and corporate initiatives. 2011 YTD SG&A costs include $2.3 million of the incremental costs and $0.9 million dollars of severance costs relating to employment reductions in March 2011.

Foreign exchange gain

In 2011 Q2, the Company recognized a net realized gain of $0.5 million as compared with a net realized gain of $1.9 million in 2010 Q2 primarily as a result of the favourable settlement of foreign exchange transactions and realization of foreign exchange gains and losses on working capital accounts. Similarly, in 2011 YTD the Company recognized a net realized gain of $1.1 million as compared with a net realized gain of $1.2 million in 2010 YTD.

Earnings from operations

Consolidated earnings from operations for 2011 Q2 in the amount of $12.8 million (5.7% of revenue) decreased 53.0% compared to earnings from operations in 2010 Q2 of $27.3 million (9.7% of revenue). In 2011 YTD consolidated earnings from operations were $27.8 million (6.3% of revenue), which represents a 34.7% decrease as compared to $42.6 million (8.1% of revenue) in 2010 YTD.

The earnings from bus manufacturing operations (including amortization and depreciation) for 2011 Q2 were $5.4 million decreased 74.3% compared to earnings of $21.0 million for 2010 Q2 (2.8% and 8.3%, respectively, of bus manufacturing revenue). The decrease in earnings during 2011 Q2 is primarily a result of lower volume of deliveries, lower average margins resulting from a more unfavourable sales mix in the current period as compared to the mix in 2010 Q2 and an unfavourable foreign currency impact due to the appreciation of the value of the Canadian dollar compared to the U.S. dollar when comparing the two periods. In 2011 YTD the earnings from bus manufacturing operations were $14.8 million (3.9% of revenue), decreased 50.5% as compared to $29.9 million (6.4% of revenue) in 2010 YTD for similar reasons as which caused the 2011 Q2 decrease as well as $0.9 million of severance costs and $2.3 million of incremental costs to assess strategic and corporate initiatives.

The earnings from aftermarket operations of $7.4 million in 2011 Q2 increased 17.4% compared to 2010 Q2 earnings of $6.3 million. 2011 Q2 aftermarket operations margin of 23.6% increased in comparison to 22.8% in 2010 Q2, primarily due to $0.9 million contribution from the used bus sales. In 2011 YTD, the earnings from aftermarket operations were $13.0 million (22.3% of revenue), compared to $12.7 million (22.1% of revenue) in 2010 YTD. The increase is primarily due to the used bus sales and the impact of the stronger Canadian dollar compared to the U.S. dollar offset by the general tightening of margins during the period.

Unrealized foreign exchange (gain) loss

Unrealized foreign currency losses arise primarily from the revaluation of the Canadian dollar-denominated long-term debt. In 2011 Q2, the Company recognized a net unrealized gain of $0.3 million compared to a net unrealized gain of $14.3 million in 2010 Q2, and during 2011 YTD the Company recognized a net unrealized loss of $8.9 million compared to a net unrealized gain of $2.4 million in 2010 YTD. These results consist of the following:

(Unaudited, US dollars in thousands)	2011 Q2	2010 Q2	2011 YTD	2010 YTD
Unrealized (gain) loss on Canadian-denominated long-term debt	$ (34)	$ (15,622)	$ 9,865	$ (3,443)
Unrealized (gain) loss on forward foreign exchanges contracts	(223)	1,235	(688)	987
Unrealized (gain) loss on other non-monetary assets/liabilities	(35)	98	(250)	17
	$ (292)	$ (14,289)	$ 8,927	$ (2,439)

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

In 2011 Q2, the Company recorded EBIT of $6.9 million compared to EBIT of $43.4 million in 2010 Q2 and EBIT of $16.4 million in 2011 YTD compared to EBIT of $44.9 million in 2010 YTD. EBIT have been impacted by non-cash items as follows:

(Unaudited, US dollars in thousands)	2011 Q2	2010 Q2	2011 YTD	2010 YTD
Non-cash charges (recovery):				
Fair value adjustment to other liabilities, Class B Shares and Class C Shares	$ —	$ (1,923)	$ —	$ 22
Fair value adjustment to embedded derivatives	6,172	—	2,505	—
Unrealized foreign exchange (gain) loss	(292)	(14,289)	8,927	(2,439)
Gain on disposition of property, plant and equipment	—	—	—	(16)
Amortization	5,954	6,026	11,906	11,703
Total non-cash charges:	$ 11,834	$ (10,186)	$ 23,338	$ 9,270

Absent these non-cash charges/recoveries, the 2011 Q2 EBIT would have been $18.7 million compared to $33.2 million in 2010 Q2, and $39.7 million in 2011 YTD compared to $54.2 million in 2010 YTD. The decrease in EBIT, excluding non-cash items is primarily a result of decreased earnings from operations in 2011 YTD as compared to 2010 YTD.

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

The interest expense for 2011 Q2 was $13.4 million compared to $13.2 million in 2010 Q2 and $26.6 million in 2011 YTD decreased compared to $27.8 million in 2010 YTD. Interest expense for 2011 YTD decreased by $1.2 million primarily due to 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 and $1.4 million of fair value adjustment on the interest rate swap offset by a $2.0 million increase in the interest on the Subordinated Notes due to the issuance of additional IDSs.

(Loss) earnings before income taxes (“EBT”)

Loss before income taxes for 2011 Q2 was $6.5 million compared to EBT of $30.1 million in 2010 Q2 and loss before income taxes for 2011 YTD was $10.2 million compared to EBT of $17.1 million in 2010 YTD. The decrease in earnings between these periods’ results from the non-cash charges (recovery) as described in the preceding table and decreased earnings from operations. The most significant non-cash charge is the unrealized foreign exchange gain and losses. The fair value adjustments are non-cash items.

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 Q2 was $0.8 million which increased $3.8 million compared to income tax expense recovered of $3.0 million in 2010 Q2. The increase when comparing the two periods consisted primarily of an $8.8 million increase in future income taxes offset by a $5.0 million decrease in current income tax. The reason for the decrease in the current income tax is due to a significant taxable loss for 2011 Q2. The reason for the relatively large increase in future income tax primarily relates to the current taxable loss and timing of certain non-taxable income and non-deductible expenses in 2011 Q2. These factors also contributed to the increase in income tax expense for 2011 YTD of $5.6 million when comparing the income tax expense of $3.5 million in 2011 YTD to income tax recovered of $2.1 million in 2010 YTD.

Net (loss) earnings

The Company reported net loss of $7.3 million in 2011 Q2 and net earnings of $33.2 million in 2010 Q2. The decrease in earnings in 2011 Q2 is primarily attributable to a decrease in earnings from operations, non-cash charges recovered to earnings as noted above and an increased income tax provisions. Similarly, 2011 YTD net loss of $13.7 million decreased compared to 2010 YTD net earnings of $19.2 million.

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.

The Company generated Distributable Cash of C$17.8 million during 2011 Q2 and declared distributions of C$14.5 million, which represents a 2011 Q2 payout ratio of 81.2%. The Company's 2011 Q2 Distributable Cash benefited from a $3.2 million current income tax recovery. By comparison, in 2010 Q2, the Company generated Distributable Cash of C$27.4 million and declared distributions of C$14.1 million, representing a payout ratio of 51.3%. During 2011 YTD, New Flyer generated Distributable Cash of C$32.1 million and declared distributions of C$28.9 million, representing a payout ratio of 90.1%. In comparison, 2010 YTD Distributable Cash and declared distributions were C$42.0 million and C$28.6 million, respectively, representing a payout ratio of 68.1%. Cumulatively, since the initial public offering on August 19, 2005, the Company has generated Distributable Cash of C$392.7 million and has declared distributions of $317.1 million, resulting in a cumulative surplus of C$75.6 million and a payout ratio of 80.7%.

During 2011 Q2, the Company increased its cash by $7.3 million primarily due to decrease in the investment in non-cash working capital by $6.7 million, due to decreased accounts receivables, increase in accounts payable and deferred revenue partially offset by an increase in inventory which is primarily a result of the change in product mix in production. Total units in inventory at the end of 2011 Q2 increased to 236 EUs from 218 EUs. The total units in inventory was made up of 12 EUs of finished goods and 224 EUs of WIP, which is slightly higher than WIP range for Fiscal 2011 of 200 to 220 that was previously estimated.

The July 3, 2011 liquidity position of $75.1 million is comprised of cash of $25.1 million and a $50.0 million secured revolving credit facility. As at July 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.

As at July 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)	**July 3, 2011**	**April 3, 2011**	January 2, 2011
Senior Leverage Ratio (must be less than 2.25)	0.84	0.81	0.27
Total Leverage Ratio (must be less than 5.25) *	4.72	4.18	3.82
Fixed Charge Coverage Ratio (must be greater than 1.10)	1.42	1.57	1.47

*Increased from 4.75 effective June 27, 2011 as per Amended Credit Facility.

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 $1.8 million was recorded on the balance sheet as a derivative financial instruments liability at July 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.

On July 27, 2011, in connection with the New Credit Facility, New Flyer has rolled over the existing interest rate swap designed to hedge floating rate exposure for the term of the New Credit Facility on the US$90 million drawn term loan. The new interest rate swap fixes the interest rate at 1.90% plus the applicable interest margin until April 2014. Based on the interest rate applicable to the term portion of the New Credit Facility and the terms of the swap, management expects that the overall interest costs for the US$ 90 million drawn term loan portion of the New Credit Facility will be less than the amount under the previous credit facility and interest rate swap.

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:

	July 3, 2011	January 2, 2011
Current, including holdbacks	$ 82,294	$ 51,317
Past due amounts but not impaired		
1 – 60 days	12,066	4,494
Greater than 60 days	13,262	4,919
Less: Allowance for doubtful accounts	(45)	(21)
Total accounts receivables, net	$ 107,577	$ 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

As at July 3, 2011, outstanding surety bonds guaranteed by the Company amounted to $38.3 million, representing an increase 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 July 3, 2011, letters of credit amounting to $14.1 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	3,000
Customer performance guarantees	9,721
Collateral in support of self-insured workers' compensation obligations	1,130

Performance Unit Plan

The performance unit plan expense (recovery) under the Former PUP (as defined below) and the New PUP (as defined below) totaled $(0.6) million and $(0.2) million for 2011 Q2 and 2011 YTD, respectively, as compared to $(0.7) million and $0.9 million recorded in 2010 Q2 and 2010 YTD, respectively.

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 Q2	2010 Q2	2011 YTD	2010 YTD
Cash from operating activities before changes in non-cash working capital items	$ 7,363	$ 18,450	$ 9,679	$ 22,726
Changes in non-cash working capital items	6,733	4,778	(46,020)	(26,640)
Cash flow from operating activities	14,096	23,228	(36,341)	(3,914)
Cash flow from financing activities	(6,033)	(6,131)	(11,373)	(10,638)
Cash flow from investing activities	(996)	$ (2,974)	$ (2,650)	$ (4,665)

Cash flows from operating activities

The 2011 Q2 net operating cash inflow of $14.1 million is the result of $7.4 million of net cash earnings and a decrease of $6.7 in non-cash working capital, compared to 2010 Q2 net operating cash inflow of $23.2 million is the result of $18.5 million of net cash earnings offset by a decrease of $4.8 in non-cash working capital.

The 2011 YTD net cash operating outflow of $36.3 million is the result of an increase of $46.0 million in non-cash working capital offset by $9.7 million of net cash earnings compared to 2010 YTD net cash operating outflow of $3.9 million is the result of an increase of $26.6 million in working capital offset by $22.7 million of net cash earnings. The 2011 YTD non-cash working capital changes that are primarily responsible for the significant outflow 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 $6.0 million and $6.1 million for 2011 Q2 and 2010 Q2, respectively.

The Company's financing activities for 2011 YTD resulted in a net cash outflow of $11.4 million, compared to 2010 YTD net cash outflow of $10.6 million. The increased outflow primarily relates to $1.0 million of increased dividends paid as a result of the Retained Interest Conversion.

Cash flow from investing activities

2011 Q2 investing activities resulted in a net cash outflow of $1.0 million compared to $3.0 million in 2010 Q2. The Company's investing activities for 2010 Q2 included the acquisition of assets and business of TCB Industries, LLC for $1.1 million. As well, investing activities for 2011 YTD resulted in a net cash outflow of $2.6 million compared to $4.7 million in 2010 YTD. 2011 YTD 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 Q2	2010 Q2	2011 YTD	2010 YTD
Capital expenditures	$ 1,155	$ 1,889	$ 2,570	$ 3,596
Less capital expenditures funded by capital leases	(159)	—	(551)	—
Cash capital expenditure	996	1,889	2,019	3,596
Comprised of:				
Maintenance capital expenditures	464	1,026	898	1,718
Growth capital expenditures	532	863	1,121	1,878
	996	1,889	2,019	3,596

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

For a detailed description of the impact of the changes resulting from the transition to IFRS, see note 15 of the 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 effective for annual periods beginning on or after July 1, 2011. 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:

IAS 12 Income Taxes is amended to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will, normally, be through sale. As a result of the amendments, SIC-21 Income Taxes — Recovery of Revalued Non-Depreciable Assets would no longer apply to investment properties carried at fair value. The amendments also incorporate

into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn effective from January 1, 2012. The Company does not expect any material impact to the Statements as a result of adopting this standard.

IAS 19 (Revised 2011) Employee Benefits:

The main change is the elimination of the corridor approach, with all changes to the defined benefit obligation and plan assets recognized when they occur. Retrospective application is required with certain exceptions, effective from January 1, 2013. Management does not expect a material impact to the Financial Statements as a result of adopting this standard.

IFRS 13 Fair Value Measurement:

IFRS 13 establishes a single framework for fair value measurement as required by other IFRSs and is applicable to both financial and non-financial items that are required or permitted by other standards to be measured at fair value, effective from January 1, 2013. Prospective application is required. Management has not yet evaluated the impact on the Financial Statements.

IAS 1 (Revised 2011) Presentation of Financial Statements:

Disclosure of Other Comprehensive Income items between those that are recycled to profit and loss and those not recycled. Retrospective application is required, effective from July 1, 2012. Management has not yet evaluated the impact on the Financial Statements.

IFRS 10 Consolidated Financial Statements:

The new Standard uses control as the single basis of consolidation for all entities with three elements to control: power over an investee; exposure or rights to variable returns; and the ability to affect returns. Retrospective application is required, subject to certain transitional provisions, effective from January 1, 2013. Management does not expect a material impact to the Financial Statements as a result of adopting this standard.

IFRS 11 Joint Arrangements:

The new Standard classifies arrangements as either joint operations or joint ventures. All interests in joint ventures should now be accounted for based on the equity method. Transitional provisions vary depending on how an interest is classified under IAS 31, effective from January 1, 2013. Management does not expect a material impact to the Financial Statements as a result of adopting this standard.

IFRS 12 Disclosure of Interest in Other Entities:

IFRS 12 requires extensive disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structures entities. Incorporation of disclosures in 2011 statements permitted, without early adoption of IFRS 12, IFRS 10, IFRS 11, IAS 27 (as amended 2011) and IAS 28 (as amended 2011), effective from January 1, 2013. Management does not expect a material impact to the Financial Statements as a result of adopting this standard.

IAS 27 (as amended 2011) Consolidated and Separate Financial Statements:

IAS 27 (2011) provides guidance on the accounting and disclosure requirements for subsidiaries, jointly controlled entities, and associates in separate, or unconsolidated, financial statements, effective from January 1, 2013. Management does not expect a material impact to the Financial Statements as a result of adopting this standard.

IAS 28 (as amended 2011) Investments in Associates:

The amended IAS 28 (2011) provides detailed guidance on the application of the equity method to associates, subsidiaries and joint ventures (previously excluded from this standard), effective from January 1, 2013. Management does not expect a material 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.

July 3, 2011

(Unaudited)

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NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

For the period ended July 3, 2011

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

	13-Weeks Ended July 3, 2011	13-Weeks Ended July 4, 2010 (Note 15)	**26-Weeks Ended July 3, 2011**	26-Weeks Ended July 4, 2010 (Note 15)
Revenue	$ 225,853	$ 280,540	$ 440,197	$ 523,520
Cost of sales	202,830	244,590	390,318	459,099
Gross profit	23,023	35,950	49,879	64,421
Sales, general and administration costs and other operating expenses	10,691	10,526	23,225	23,053
Foreign exchange gain	(479)	(1,860)	(1,148)	(1,226)
Earnings from operations	12,811	27,284	27,802	42,594
Unrealized foreign exchange (gain) loss on non-current monetary items	(292)	(14,289)	8,927	(2,439)
Business acquisition related costs	—	127	—	127
Gain on disposition of property, plant and equipment	—	—	—	(16)
Fair value adjustment to embedded derivatives	6,172	—	2,505	—
Fair value adjustment to other liabilities, Class B Shares and C Shares	—	(1,923)	—	22
Earnings before interest and income taxes	6,931	43,369	16,370	44,900
Finance costs				
Interest on long-term debt	12,990	12,055	26,007	23,997
Accretion in carrying value of long-term debt	245	217	484	429
Other interest and bank charges	497	677	830	1,035
Fair market value adjustment on interest rate swap	(299)	286	(725)	695
	13,433	13,235	26,596	26,156
Distributions on Class B Shares and Class C Shares	—	—	—	1,626
	13,433	13,235	26,596	27,782
(Loss) earnings before income tax expense	(6,502)	30,134	(10,226)	17,118
Income tax expense (recovered)				
Current income taxes (recovered)	(3,226)	1,735	(386)	4,017
Deferred taxes (recovered)	4,043	(4,768)	3,840	(6,138)
	817	(3,033)	3,454	(2,121)
Net (loss) earnings and comprehensive (loss) income for the period	$ (7,319)	$ 33,167	$ (13,680)	$ 19,239
Net (loss) earnings per share (basic and diluted) (note 7)	$ (0.15)	$ 0.70	$ (0.28)	$ 0.41

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

July 3, 2011

(unaudited, in thousands of U.S. dollars)

	July 3, 2011	January 2, 2011
Assets		
Current		
Cash	$ 25,121	$ 73,463
Accounts receivable (note 3)	107,557	60,709
Inventories (note 4)	117,099	82,882
Prepaid expenses and deposits	4,245	5,196
Derivative financial instruments (note 10b)	696	8
	254,718	222,258
Property, plant and equipment	35,638	37,086
Goodwill and intangible assets	552,357	559,711
Embedded derivative instruments (note 10b)	2,381	4,910
Deferred tax assets (note 5)	25,575	24,968
	$ 870,669	$ 848,933
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 152,944	$ 95,008
Deferred revenue	14,011	27,568
Provisions (note 13)	38,240	42,641
Current portion of performance unit plan liability	—	4,142
Current portion of obligations under finance leases	2,695	2,596
Current portion of long-term debt (note 6)	89,280	—
	297,170	171,955
Accrued benefit liability	7,508	8,922
Obligations under finance leases	2,862	3,684
Performance unit plan liability	3,740	3,823
Deferred tax liabilities (note 5)	128,245	125,997
Long-term debt (note 6)	326,002	404,929
Derivative financial instruments (note 10b)	1,785	2,510
	767,312	721,820
Commitments and contingencies (note 12)		
Shareholders' equity		
Share capital (note 7)	226,338	226,338
Deficit	(122,981)	(99,225)
	103,357	127,113
	$ 870,669	$ 848,933

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

Authorized for issue by the board of directors on August 10, 2011.

NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended July 3, 2011

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

	Share Capital	Deficit	Total Shareholders' Equity (note 15)
Balance, January 4, 2010	**$ 217,469**	**$ (80,141)**	**$ 137,328**
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	(363)	—	(363)
Net earnings and comprehensive earnings for the period	—	19,239	19,239
Dividends declared on common shares	—	(9,048)	(9,048)
Balance, July 4, 2010 (note 15)	**226,454**	**(69,950)**	**156,504**
Share issuance costs	(116)	—	(116)
Net loss and comprehensive loss for the period	—	(19,699)	(19,699)
Dividends declared on common shares	—	(9,576)	(9,576)
Balance, January 2, 2011	**226,338**	**(99,225)**	**127,113**
Net loss and comprehensive loss for the period	—	(13,680)	(13,680)
Dividends declared on common shares	—	(10,076)	(10,076)
Balance, July 3, 2011	**$ 226,338**	**$ (122,981)**	**$ 103,357**

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

For the period ended July 3, 2011

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

	13-Weeks Ended July 3, 2011	13-Weeks Ended July 4, 2010 (Note 15)	**26-Weeks Ended July 3, 2011**	26-Weeks Ended July 4, 2010 (Note 15)
Cash provided by (used in)				
Operating activities				
Net (loss) earnings for the period	$ (7,319)	$ 33,167	$ (13,680)	$ 19,239
Depreciation of plant and equipment	1,956	2,059	3,921	3,770
Amortization of intangible assets	3,998	3,967	7,985	7,933
Gain on disposition of property, plant and equipment	—	—	—	(16)
Deferred taxes (recovered)	4,043	(4,768)	3,840	(6,138)
Unrealized (gain) loss on interest rate swap	(299)	286	(725)	695
Unrealized foreign exchange (gain) loss on non-current monetary items	(292)	(14,289)	8,927	(2,439)
Accretion in carrying value of long-term debt	245	217	484	429
Foreign exchange (gain) loss on cash held in foreign currency	(262)	239	(2,022)	(44)
Fair value adjustment to embedded derivatives	6,172	—	2,505	—
Fair value adjustment to other liabilities, Class B Shares and Class C Shares	—	(1,923)	—	22
Defined benefit expense (note 9)	457	416	913	832
Defined benefit funding	(1,336)	(921)	(2,469)	(1,557)
Cash from operating activities before changes in non-cash working capital items	7,363	18,450	9,679	22,726
Changes in non-cash working capital items (note 8)	6,733	4,778	(46,020)	(26,640)
	14,096	23,228	(36,341)	(3,914)
Financing activities				
Repayment of obligations under finance leases	(671)	(624)	(1,349)	(1,213)
Costs associated with share issuance	—	(363)	—	(363)
Proceeds from issue of long-term debt	—	11,565	—	11,565
Costs associated with refinancing or debt issuance	—	(449)	—	(449)
Repayment of other liabilities, Class B Shares and Class C Shares	—	(11,565)	—	(11,565)
Due from related party – New Flyer LLC (held by management)	—	(127)	—	383
Dividends paid	(5,362)	(4,568)	(10,024)	(8,996)
	(6,033)	(6,131)	(11,373)	(10,638)
Investing activities				
Proceeds on disposition of property, plant and equipment	—	—	—	16
Acquisition of intangibles	—	—	(631)	—
Net cash used in acquisition of TCB Industries, LLC	—	(1,085)	—	(1,085)
Acquisition of property, plant and equipment	(996)	(1,889)	(2,019)	(3,596)
	(996)	(2,974)	(2,650)	(4,665)
Effect of foreign exchange rate on cash	262	(239)	2,022	44
Increase (decrease) in cash	7,329	13,884	(48,342)	(19,173)
Cash — beginning of period	17,792	(2,361)	73,463	30,696
Cash — end of period	$ 25,121	$ 11,523	$ 25,121	$ 11,523

Supplemental cash flow information (note 8)

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, it has 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 trades its Income Deposit Security units ("IDS") under the symbol "NFI.UN". Each IDS consists of one NFI common share ("Shares") and C$5.53 principal amount of 14% Subordinated Notes of NFI ULC ("Subordinated Notes").

These financial statements were approved by the Company's board of directors on August 10, 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

These 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"). The same accounting policies and methods of computation were followed in the preparation of these Statements as were followed in the preparation of the interim condensed consolidated financial statements for the 13 week period ended April 3, 2011 ("2011 Q1 Financial Statements"). In addition, the 2011 Q1 Financial Statements contain certain incremental annual IFRS disclosures not included in the annual financial statements for the year ended January 2, 2011 (the "2010 Annual Financial Statements") prepared in accordance with previous Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). Accordingly, these Statements should be read together with the 2010 Annual Financial Statements prepared in accordance with previous Canadian GAAP as well as the 2011 Q1 Financial Statements.

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 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

These Statements have been prepared on the historical cost basis except for derivative financial instruments and an embedded derivative instrument, which are measured at fair value. 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 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 15 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on cash flows, equity and comprehensive income. The reconciliation of equity is at July 4, 2010 and a reconciliation of the statement of comprehensive income is for the 13-week period ended July 4, 2010 (“2010 Q2”) and 26-week period ended July 4, 2010 (“2010 H1”).

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 2.4.

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.

2.4 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.

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, provisions, 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 values of assets and liabilities are addressed below.

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 of the Company’s April 3, 2011 Interim Condensed Consolidated Financial Statements. The Company has two cash generating units (“CGUs”), of which the carrying values include goodwill and must be tested for impairment. No impairment losses in respect of goodwill were recognized in the current interim financial reporting period. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 of the Company's 2011 Q1 Financial Statements, 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.

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on management's assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire. Management's assessment is based upon existing tax laws and estimates of future taxable income. If management's 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 of the Company's 2011 Q1 Financial Statements, 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 of the Company's April 3, 2011 Interim Condensed Consolidated Financial Statements, 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.

2.5 Standards issued but not yet adopted

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 effective for annual periods beginning on or after July 1, 2011. 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:

IAS 12 Income Taxes is amended to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will normally be through sale. As a result of the amendments, SIC-21 Income Taxes — Recovery of Revalued Non-Depreciable Assets would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn effective from January 1, 2012. The Company does not expect any material impact to the Statements as a result of adopting this standard.

IAS 19 (Revised 2011) Employee Benefits:

The main change is the elimination of the corridor approach, with all changes to the defined benefit obligation and plan assets recognized when they occur. Retrospective application is required with certain exceptions, effective from January 1, 2013. Management has not yet evaluated the impact on the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS 13 Fair Value Measurement:

IFRS 13 establishes a single framework for fair value measurement as required by other IFRSs and is applicable to both financial and non-financial items that are required or permitted by other standards to be measured at fair value, effective from January 1, 2013. Prospective application is required. Management has not yet evaluated the impact on the financial statements.

IAS 1 (Revised 2011) Presentation of Financial Statements:

Disclosure of Other Comprehensive Income items between those that are recycled to profit and loss and those not recycled. Retrospective application is required, effective from July 1, 2012. Management has not yet evaluated the impact on the financial statements.

IFRS 10 Consolidated Financial Statements:

The new Standard uses control as the single basis of consolidation for all entities with three elements to control: power over an investee; exposure or rights to variable returns; and the ability to affect returns. Retrospective application is required, subject to certain transitional provisions, effective from January 1, 2013. Management has not yet evaluated the impact on the financial statements.

IFRS 11 Joint Arrangements:

The new Standard classifies arrangements as either joint operations or joint ventures. All interests in joint ventures should now be accounted for based on the equity method. Transitional provisions vary depending on how an interest is classified under IAS 31, effective from January 1, 2013. Management does not expect a material impact to the Financial Statements as a result of adopting this standard.

IFRS 12 Disclosure of Interest in Other Entities:

IFRS 12 requires extensive disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structures entities. Incorporation of disclosures in 2011 statements permitted, without early adoption of IFRS 12, IFRS 10, IFRS 11, IAS 27 (as amended 2011) and IAS 28 (as amended 2011), effective from January 1, 2013. Management does not expect a material impact to the financial statements as a result of adopting this standard.

IAS 27 (as amended 2011) Consolidated and Separate Financial Statements:

IAS 27 (2011) provides guidance on the accounting and disclosure requirements for subsidiaries, jointly controlled entities, and associates in separate, or unconsolidated, financial statements, effective from January 1, 2013. Management does not expect a material impact to the financial statements as a result of adopting this standard.

IAS 28 (as amended 2011) Investments in Associates:

The amended IAS 28 (2011) provides detailed guidance on the application of the equity method to associates, subsidiaries and joint ventures (previously excluded from this standard), effective from January 1, 2013. Management does not expect a material impact to the financial statements as a result of adopting this standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 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 RECEIVABLE

	July 3, 2011	January 2, 2011
Trade	$ 95,832	$ 52,487
Income taxes	6,615	1,505
Other	5,110	6,717
	$ 107,557	$ 60,709

4. INVENTORIES

	July 3, 2011	January 2, 2011
Raw materials	$ 49,232	$ 38,600
Work in process	63,105	42,580
Finished goods	4,762	1,702
	$ 117,099	$ 82,882

During the 13-week period ended July 3, 2011 ("2011 Q2") and the 26-week period ended July 3, 2011 ("2011 H1"), the Company had a write-down of inventory to net realizable value recorded in cost of sales of $924, and $1,033, respectively and $140 and $389 for the 13-week period ended July 4, 2010 ("2010 Q2") and 2010 H1. There were no reversals of a write-down in inventory in any of the related periods.

5. DEFERRED TAXES

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 tax 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:

	July 3, 2011	January 2, 2011
As presented on statements of financial position:		
Deferred tax assets	$ 25,575	$ 24,968
Deferred tax liabilities	(128,245)	(125,997)
Deferred taxes (net)	(102,670)	(101,029)

5. DEFERRED TAXES (Continued)

		July 3, 2011	January 2, 2011
Deferred tax assets:			
Deferred tax asset to be recovered after more than 12 months	$	33,318	$ 33,078
Deferred tax asset to be recovered within 12 months		5,707	8,467
		39,025	41,545
Deferred tax liabilities:			
Deferred tax liability to be recovered after more than 12 months		(134,580)	(137,383)
Deferred tax liability to be recovered within 12 months		(7,115)	(5,191)
		(141,695)	(142,574)
Deferred taxes (net)		(102,670)	(101,029)

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

	13-Weeks Ended July 3, 2011	26-Weeks Ended July 3, 2011
Beginning of period	$ (100,435)	$ (101,029)
Exchange differences	(391)	—
Statement of net loss and comprehensive loss charge	(4,043)	(3,840)
Tax credits recorded in earnings before income taxes	2,199	2,199
End of period	$ (102,670)	$ (102,670)

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 2, 2011	(1,276)	(6,480)	(134,436)	(382)	(142,574)
Statement of net loss and comprehensive loss charge	243	(1,803)	2,841	(402)	879
July 3, 2011	$ (1,033)	$ (8,283)	$ (131,595)	$ (784)	$ (141,695)

Deferred tax assets	Provisions	Pension	Deferred Financing costs	Other	**Total**
January 2, 2011	18,983	3,355	5,993	13,214	41,545
Statement of comprehensive loss charge	(1,665)	(532)	(197)	(2,325)	(4,719)
Tax credits recorded in earnings before income taxes	—	—	—	2,199	2,199
July 3, 2011	$ 17,318	$ 2,823	$ 5,796	$ 13,088	$ 39,025

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 $11,831 which may be applied against future taxable income.

5. DEFERRED TAXES (Continued)

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

	13-Weeks Ended July 3, 2011	13-Weeks Ended July 4, 2010	**26-Weeks Ended July 3, 2011**	26-Weeks Ended July 4, 2010
(Loss) earnings before income tax expense	$ (6,502)	$ 30,134	$ (10,226)	$ 17,118
Tax calculated using U.S. tax rate	(2,276)	9,341	(3,579)	5,306
Tax effect of:				
Non-taxable income	1,284	—	—	—
Benefit of deductible share issue costs	(62)	(162)	(121)	(324)
Withholding and other taxes	718	(544)	1,279	356
Non-deductible expenses	1,300	31	1,701	64
Revision of tax estimates	—	(118)	—	(21)
Impact of subsidiaries' foreign branch operations	—	239	—	978
Foreign exchange impact of subsidiaries' foreign branch	(422)	(7,499)	3,901	(2,728)
State taxes	51	—	76	—
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	—	(596)	—	7
Recognition of previously unrecorded assets	—	(5,769)	—	(8,021)
Other	224	2,044	197	1,758
Income tax expense (recovered) for the period	$ 817	$ (3,033)	$ 3,454	$ (2,121)

	13-Weeks Ended July 3, 2011	13-Weeks Ended July 4, 2010	**26-Weeks Ended July 3, 2011**	26-Weeks Ended July 4, 2010
Total current tax (recovered) for the period	$ (3,226)	$ 1,735	$ (386)	$ 4,017
Total deferred tax (recovered) for the period	4,043	(4,768)	3,840	(6,138)
Income tax expense (recovered) for the period	$ 817	$ (3,033)	$ 3,454	$ (2,121)

6. LONG-TERM DEBT

	Final Maturity	Face Value	Unamortized Transaction Costs	**Net Book Value July 3, 2011**	Net Book Value January 2, 2011
Subordinated Notes included in the IDS issue (a)	2020	$ 283,669	$ 2,297	$ 281,372	$ 272,799
Separate Subordinated Notes (b)	2020	44,800	170	44,630	43,275
Term Credit Facility (c)	2012	90,000	720	89,280	88,855
		418,469	3,187	415,282	404,929
Less: current portion (c)		(90,000)	(720)	(89,280)	—
		$ 328,469	$ 2,467	$ 326,002	$ 404,929

Under the terms of the Credit Facility (as defined in (c) below) existing as at July 3, 2011, 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 and as a result has been reflected as a current liability. The terms of the Credit Facility were amended on July 27, 2011 pursuant to the New Credit Facility (see Note 14(b)).

(a) C$273,599 (January 2, 2011: C$273,599) is the aggregate principal amount of 14% unsecured Subordinated Notes denominated in Canadian dollars that mature in 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) 14% Separate Subordinated Notes, under the same terms and conditions as the Subordinated Notes included in the issuance of 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 July 3, 2011, a $50,000 secured revolving credit facility (with no drawings at July 3, 2011) and a $40,000 letter of credit facility, which was drawn at $14,124 at July 3, 2011 (January 2, 2011: $15,456).

On June 27, 2011, the Credit Facility was amended to increase the maximum Total Leverage Ratio from 4.75 to 5.25 to 1 and also added a $7,500 cushion to the dividend payment test when calculating the Company's excess cash flow until December 31, 2011.

6. LONG-TERM DEBT (Continued)

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) 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.

7. SHARE CAPITAL

Authorized					
Unlimited	Common Shares				
Issued			**July 3, 2011**		**January 2, 2011**
49,475,279	Common Shares (January 2, 2011: 49,475,279)	$	226,338	$	226,338

The basic and diluted earnings per share have been calculated using the weighted average number of shares outstanding for 2011 Q2 and 2011 H1, that was 49,475,279 for both periods. The weighted average number of shares outstanding for 2010 Q2 and 2010 H1, was 47,583,254 and 47,453,177 respectively.

During the 2011 Q2 and 2011 H1, the Company declared dividends of $5,086 and $10,076 (2010: $4,557 and $9,048), respectively, to the holders of Shares.

8. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	**13-Weeks Ended July 3, 2011**	13-Weeks Ended July 4, 2010	**26-Weeks Ended July 3, 2011**	26-Weeks Ended July 4, 2010
Accounts receivable	$ 5,394	$ (677)	$ (49,047)	$ (19,365)
Inventories	(11,492)	21,708	(34,217)	21,570
Prepaid expenses and deposits	376	896	951	2,020
Accounts payable and accrued liabilities	5,939	(3,731)	54,251	(15,970)
Deferred revenue	10,601	(11,749)	(13,557)	(13,560)
Provisions	(4,085)	(1,669)	(4,401)	(1,335)
	6,733	4,778	$ (46,020)	$ (26,640)
Supplemental cash flow information				
Cash payments of interest	$ 12,859	$ 11,910	$ 26,533	$ 24,677
Cash payments of income taxes	1,129	2,090	4,440	6,505

9. EMPLOYEE FUTURE BENEFITS

Defined benefit plan

The Company recorded a net defined benefit pension expense of $457 and $913 (2010 - $416 and $832) for 2011 Q2 and 2011 H1. No actuarial gain/losses were estimated for 2011 Q2 and 2011 H1.

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 Company recorded a net defined contribution pension expense of $522 and $1,039 (2010 - $485 and $1,009) for 2011 Q2 and 2011 H1.

Cash payments contributed by the Company during for 2011 Q2 and 2011 H1 for its defined benefit and defined contribution pension plans amounted to $1,858 and $3,508 (2010 - $1,406 and $2,566), respectively.

10. 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
Long-term debt	Other Liabilities
Derivative financial instruments and embedded derivatives	Fair value through profit or loss

(b) Risk Management

The Company uses derivative financial instruments including interest rate swaps, foreign exchange options and forward foreign exchange contracts. These instruments are financial contracts whose value depends on interest rates and foreign currency prices.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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.

During the 2011 H1, the Company recorded a realized foreign exchange gain of $1,372 (2010: $1,226) relating to the settlement of the foreign exchange forward contracts at an agreed exchange rate.

At July 3, 2011, the Company has foreign exchange forward contracts that range in expiry dates from July and August 2011, the related asset of $696 is recorded on the condensed consolidated statements of financial position as a current derivative financial instruments and the corresponding change in the fair value of the foreign exchange forward contracts has been recorded in the condensed consolidated statements of net loss and comprehensive loss.

The fair value of the interest rate swap liability at July 3, 2011 is $1,785 (January 2, 2011: $2,510) and the change in fair value has been recorded as finance costs for the reported period. The related liability has been recorded on the condensed consolidated statements of financial position as a derivative financial instruments liability.

An embedded derivative exists relating to the Company's right to prepay the Subordinated Notes (discussed in note 6(a,b)). The fair value of the embedded derivative at July 3, 2011 is $2,381. The fair value of the embedded derivatives is adjusted at each reporting date and recorded as a fair value adjustment in the condensed consolidated statement of net loss and comprehensive loss.

(c) Liquidity Management

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 July 3, 2011, the Company had a cash balance of $25,121 and a $50,000 secured revolving credit line. As at July 3, 2011, there were no direct borrowings under this secured revolving credit facility.

The Company's principal sources of funds is cash generated from its operating activities and borrowing capacity remaining under its Credit Facility and after July 27, 2011 under the New Credit Facility. Management believes that these funds 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.

(d) Credit risk

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 condensed consolidated statement of net loss and comprehensive loss 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 administration costs and other expenses in the statement of net loss and comprehensive loss.

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

	July 3, 2011	January 2, 2011
Current, including holdbacks	$ 82,294	$ 51,317
Past due amounts but not impaired		
1 – 60 days	12,066	4,494
Greater than 60 days	13,262	4,919
Less: Allowance for doubtful accounts	(45)	(21)
Total accounts receivables, net	$ 107,577	$ 60,709

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

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

As a result of the Credit Facility 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 July 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:

	July 3, 2011	January 2, 2011
Senior Leverage Ratio (must be less than 2.25)	0.84	0.27
Total Leverage Ratio (must be less than 5.25) *	4.72	3.82
Fixed Charge Coverage Ratio (must be greater than 1.10)	1.42	1.47

*Increased from 4.75 effective June 27, 2011 as per Amended Credit Facility.

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.

11. 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 a 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 and sale of used 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 derivatives, 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 Bus Operations segment has recorded vendor rebates of $1,902 (2010: $1,871), which have been recognized into earnings during 2011 H1, but for which the full requirements for entitlement to these rebates have not yet been met.

The unallocated total assets of the Company primarily include cash, intangible assets, embedded derivative instrument, derivative financial instruments and deferred income tax assets.

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

11. SEGMENT INFORMATION (Continued)

Segment information about profits and assets is as follows:

	13-Weeks Ended July 3, 2011			
	Bus Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 194,723	$ 31,130	$ —	$ 225,853
Operating costs and expenses	183,792	23,775	—	207,567
Earnings (loss) before income taxes	10,931	7,355	(24,788)	(6,502)
Total assets	368,028	98,679	403,962	870,669
Capital expenditures	971	25	—	996
Goodwill	148,483	53,685	—	202,168

	13-Weeks Ended July 4, 2010			
	Bus Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 253,072	$ 27,468	$ —	$ 280,540
Operating costs and expenses	227,888	21,202	—	249,090
Earnings (loss) before income taxes	25,184	6,266	(1,316)	30,134
Total assets	397,461	86,311	397,491	881,263
Capital expenditures	1,830	59	—	1,889
Goodwill	147,398	53,685	—	201,083

	26-Weeks Ended July 3, 2011			
	Bus Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 382,181	$ 58,016	$ —	$ 440,197
Operating costs and expenses	356,599	45,038	—	401,637
Earnings (loss) before income taxes	25,582	12,978	(48,786)	(10,226)
Total assets	368,028	98,679	403,962	870,669
Capital expenditures	1,918	101	—	2,019
Goodwill	148,483	53,685	—	202,168

11. SEGMENT INFORMATION (Continued)

	26-Weeks Ended July 4, 2010			
	Bus Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 469,179	$ 54,341	$ —	$ 523,520
Operating costs and expenses	428,837	41,612	—	470,449
Earnings before income taxes	40,342	12,729	(35,953)	17,118
Total assets	397,461	86,311	397,491	881,263
Capital expenditures	3,462	134	—	3,596
Goodwill	147,398	53,685	—	201,083

12. COMMITMENTS AND CONTINGENCIES

(a) 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 July 3, 2011 range from July 2011 to April 2013. At July 3, 2011, outstanding surety bonds guaranteed by the Company totaled $38,296. 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.

(b) As at July 3, 2011, the Company had a letter of credit facility of $40,000. As at July 3, 2011, letters of credit totaling $14,123 remain outstanding under the letter of credit facility as security for the following contractual obligations of the Company:

	July 3, 2011
Collateral to secure operating facility leases	$ 272
Collateral to secure surety facilities	3,000
Customer performance guarantees	9,721
Collateral in support of self-insured workers compensation obligations	1,130

As at July 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.

13. PROVISIONS

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 buses. 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 Company's provisions during the period is as follows:

	Warranty	Other	**Total**
January 2, 2011	$ 42,641	$ —	$ 42,641
Additions	8,074	1,605	9,679
Amounts used/realized	(13,547)	(842)	(14,389)
Exchange differences	309	—	309
July 3, 2011	$ 37,477	$ 763	$ 38,240

14. SUBSEQUENT EVENTS

(a) On July 7, 2011, the Company filed a final short form prospectus with the securities regulatory authorities in each of the provinces and territories of Canada in connection with a non-cash rights offering (the "Offering") to convert from its current IDS structure to a traditional common share structure. The final short form prospectus was amended by Amendment No. 1 to the short form prospectus dated July 7, 2011, filed by the Company with the securities regulatory authorities on July 21, 2011.

Pursuant to the Offering, NFI issued to holders of its Shares, substantially all of which are represented by IDSs, rights ("Rights") to subscribe for and purchase additional Shares. Each holder of record of Shares as of the close of business on the record date of July 20, 2011 received one Right for each Share held:

- Each Right entitles the holder to subscribe for and purchase nine (9) additional Shares, such that a holder exercising a Right, following the completion of the Offering, will hold ten (10) Shares;
- Each Right is exercisable only on delivery of C$5.53 principal amount of Subordinated Notes;
- The Rights may not be exercised for cash or any other consideration and subscriptions for Shares will be irrevocable; and
- The Rights will not be independently listed or posted for trading on the Toronto Stock Exchange (the "TSX").

These Rights must be exercised prior to 5:00 p.m. Eastern Time (the "Expiry Time") on August 18, 2011 (the "Expiry Date"). Rights not exercised at or before the Expiry Time on the Expiry Date will be void and have no value.

The gain or loss on the extinguishment of the debt will be recorded based on the estimated fair value of the debt at that time.

14. SUBSEQUENT EVENTS (Continued)

(b) On July 27, 2011, the Company entered into a second amended and restated credit facility agreement (the "New Credit Facility") with The Bank of Nova Scotia and Bank of Montreal, as co-lead arrangers and joint book runners, and a syndicate of leading Canadian and American financial institutions in the amount of US$195 million. The New Credit Facility refinances New Flyer's existing senior credit facility which was scheduled to mature in April 2012. The New Credit Facility matures on April 24, 2014 and consists of a US$105 million term loan (including a US$15 million delayed draw loan) and a US$90 million revolver (including a US$55 million letter of credit sub-facility). As a result of the New Credit Facility, the current portion of long-term debt relating to the Term Credit Facility will be subsequently classified as long-term debt.

(c) In connection with the New Credit Facility, the Company has rolled over the existing interest rate swap designed to hedge floating rate exposure for the term of the New Credit Facility on the US$90 million of drawn term loan. The new interest rate swap fixes the interest rate at 1.90% plus the applicable interest margin until April 2014. In comparison, the interest rate swap in place prior to the closing of the New Credit Facility fixed the interest rate at 2.61% plus the applicable interest margin until April 2012.

(d) On July 7, 2011, the Company decreased IDS distributions from C$1.17 per annum to C$0.86 per annum, effective with the July 2011 distribution, payable on or about August 15, 2011 to IDS holders of record on July 29, 2011. The total IDS cash distribution for the month of July 2011 is C$0.07167 per IDS and reflects a cash dividend of C$0.00715 per Share and an interest payment of C$0.06452 per Subordinated Note for the period from July 1, 2011 to July 31, 2011.

15. RECONCILIATION OF CANADIAN GAAP TO IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income 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 comprehensive income:

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

Period ended	Notes	July 4, 2010
Shareholders' equity under Canadian GAAP – previously reported		**123,519**
Embedded derivative instrument	G	2,771
Shareholders' equity under Canadian GAAP - restated		**126,290**
Differences that increase (decrease) reported equity:		
1. Goodwill	A	33,562
2. Accrued benefit liability	B, F	(5,112)
3. Provisions	C	(161)
4. Deferred Income taxes	E	1,925
Total Shareholders' equity under IFRS		**156,504**

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

Period ended	Notes	13 weeks ended July 4, 2010	26 weeks ended July 4, 2010
Comprehensive income under Canadian GAAP		**35,853**	**22,893**
Differences that increase (decrease) reported earnings:			
1. Cost of sales			
i) Employee future benefits	B	62	124
ii) Onerous contract provision	C	862	(161)
2. Foreign exchange gain/loss	D	317	70
3. Income tax expense	E	(3,927)	(3,687)
Comprehensive income under IFRS		**33,167**	**19,239**

15. RECONCILIATION OF CANADIAN GAAP TO IFRS (Continued)

Explanation of transition to IFRS

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

The Company applied the exemption in IFRS 1 for business combinations. Consequently, business combinations concluded prior to January 4, 2010 ("Transition Date") 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 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 result 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 was to increase goodwill by $33,562 and decrease deficit also by $33,562. There is no tax impact of this adjustment.

B. Accrued benefit liability/employee future benefits

In accordance with IFRS 1, 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 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. The onerous contract provision is derecognized in the period in which the related revenue is recognized.

D. Foreign exchange gain/loss

There is a foreign exchange translation effect on the Transition date adjustments relating to the Canadian dollar defined benefit pension plan (discussed in B, above).

15. RECONCILIATION OF CANADIAN GAAP TO IFRS (Continued)

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 remaining 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) in other comprehensive loss.

G. Embedded derivative instruments

In the first quarter of 2011, an error was discovered pertaining to embedded derivatives associated with the Company's right to prepay the Subordinated Notes (discussed in note 6(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 and related unrealized foreign exchange gain/loss on non-current monetary items in the statement of net loss and comprehensive loss. Accordingly, the error was corrected by recording the fair value of the embedded derivative assets of $2,771 and a corresponding credit to deficit at January 4, 2010. The fair value adjustment to embedded derivative during Fiscal 2010 was a gain of $2,139 resulting in an embedded derivative asset of $4,910 as at January 2, 2011. The fair value of the embedded derivative at July 3, 2011 is $2,381.