November 7, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS AND 39-WEEKS ENDED OCTOBER 2, 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 Q3") and the 39-week period ("2011 YTD") ended October 2, 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 the Financial 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 common shares ("Shares") and New Flyer Industries Canada ULC ("NFI ULC"), an Alberta unlimited liability corporation, is the issuer of C$55.30 principal amount of 14% Subordinated Notes ("Subordinated Notes"), that, together form the income deposit securities of the Issuer ("IDSs"). As of October 2, 2011, 44,379,070 Common Shares were outstanding, 555,185 of which were represented by IDSs. Each IDS represents one Common Share and C$55.30 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, 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 the Company's senior credit facility and Subordinated Note indenture could impact the ability of the Company to fund distributions and take certain other actions, interest rates could change substantially and materially impact the Company's profitability, the dependence on limited sources of supply, the timely supply of materials from suppliers, the possibility of fluctuations in the market prices of the pension plan investments and discount rates used in the actuarial calculations will impact pension expense and funding requirements, the Company's profitability and performance can be adversely affected by increases in raw material and component costs, the availability of labour could have an impact on production levels, the ability of the Company to successfully execute strategic plans and maintain profitability and risks related to acquisitions. The Issuer cautions that this list of factors is not exhaustive. These factors and other risks and uncertainties are discussed in the Issuer's press releases and materials filed with the Canadian securities regulatory authorities and are available on SEDAR at www.sedar.com.

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

DEFINITIONS OF EBITDA, ADJUSTED EBITDA AND FREE CASH FLOW

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, loss on debt for equity exchange, 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 and Free Cash Flow (as defined below) are useful measures in evaluating the performance of the Company and/or the Issuer. "Free Cash Flow" means cash flows from operations adjusted for changes in non-cash working capital items, effect of foreign currency rate on cash, defined benefit funding, business acquisition related costs, costs associated with assessing strategic and corporate initiatives, proceeds on sale of redundant assets and decreased for defined benefit expense, capital expenditures and principal payments on capital leases. However, EBITDA, Adjusted EBITDA and Free Cash Flow 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 Free Cash Flow 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 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 Free Cash Flow to cash flows from operations is provided under the heading "Summary of Free Cash Flow".

The Issuer's method of calculating EBITDA, Adjusted EBITDA and Free Cash Flow may differ materially from the methods used by other issuers and, accordingly, may not be comparable to similarly titled measures used by other issuers. Dividends or distributions paid from Free Cash Flow are not assured, and the actual amount of dividends or distributions received by holders of Shares and 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 parts fabrication facility in Elkhart, Indiana. The Company also has four parts distribution centers in Winnipeg, MB, Brampton, ON, Erlanger, KY and Fresno, CA and a service center in Arnprior, ON. 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. 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 develop a cost effective 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, especially in the United States continues to have an impact on funding challenges faced by transit agencies. The availability of funding for transit agencies in the United States continues with uncertainty. While federal capital funding provisions were recently extended through March 2012 at current authorization levels, many experts consider this a temporary measure. The Chairperson of the House Transportation and Infrastructure Committee has stated that it is his intention to complete a comprehensive reauthorization prior to the new expiry date. The leadership of the Committee has indicated that it wishes to reauthorize at lower levels than the current provision, but there appears to be little consensus at this time among the House, Senate, and the President of the United States regarding the level of funding that transit will ultimately receive.

Operating funds for U.S. transit agencies have also 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 advertising on buses. State tax collections in the United States are showing some signs of improvement. Preliminary second quarter 2011 data for 46 early-reporting states indicates strong growth of 11.4% for overall tax collections, driven by personal income tax and corporate tax revenues. This is the sixth consecutive quarter U.S. states have reported growth, but collections were still lower when compared

to the first quarter of 2008. While there are positive indicators that the economy is showing signs of revenue growth, there is a considerable lag until that growth converts into increases in heavy-duty transit spending.

In Canada, unlike the US, there is no central source of funding for bus procurements. Instead, funding of bus purchases comes from a patchwork of provincial funding, municipal funding, fare box revenue, various federal programs, and other smaller sources. Across Canada the funding approach varies widely from province to province and even from city to city within a single province. The Canadian Urban Transportation Association has reported a decrease in average fleet age from 10.8 years in 2002 to 6.6 years in 2010. Management believes that other than fleet age statistics there is no high-level indicator of the health of funding for the industry, and ridership may be the best available indicator of the overall state of transit in Canada.

Recent Ridership Trends

The American Public Transportation Association (“APTA”) reported that 2011 second quarter U.S. transit bus ridership grew by a moderate 0.22% over the same quarter in the previous year. This is an improvement following flat ridership (-0.02%) year-over-year for the respective first quarter periods. Transit ridership in all modes grew in the US by 1.55% in the second quarter of 2011 compared to the year-earlier quarter. During the same period, eleven key Canadian transit systems reported overall ridership for all modes of transit increased by 4.2% over the same period, and ten 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 published 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 have been 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 2011 from transit agencies declined by 10 to 15 percent, thereby greatly increasing competition among manufacturers for a lower demand of buses. The U.S. fleet of heavy-duty buses is aging. APTA reported the average age of buses in service for 2010 was 7.4 years compared to 6.3 years in 2002. It is the Company’s experience that the vast majority of buses are procured by public tender. While most transit bus procurements are, at face value, driven by technical specification requirements, purchasing decisions have become more heavily weighted on price. Management believes that bus competition among the major bus manufacturers in late 2010 and into 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. With several competitors scrambling to fill open production slots in 2011 and 2012 and two competitors reportedly operating on reduced or alternating work weeks, management expects continued pricing pressure for the balance of 2011 and through 2012.

On October 18, 2011, US Department of Transportation Secretary Ray LaHood announced federal grants totaling $928.5 million to fund more than 300 public transportation projects. The Department of Transportation indicated that these grants will help in a number of areas, including replacing or refurbishing aging buses; building or improving bus terminals, garages and other transit facilities; installing bus-related equipment and conducting studies to help communities choose the best transit options. Management estimates the portion dedicated to bus purchases is approximately $375.0 million distributed through new bus solicitations and option purchases for heavy-duty buses. The grants were available through the Federal Transit Administration's 2011 fiscal year Alternatives Analysis, Bus Livability, and State of Good Repair programs. This funding will not materially increase the projected market size.

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. At the end of 2011 Q3, there were approximately 11,400 EUs in New Flyer's new potential pipeline or bid universe for heavy-duty transit buses, a moderate decrease from the approximately 11,800 EUs reported at the end of the 13-week period ended July 3, 2011 (“2011 Q2”). The pipeline is expected to remain volatile as customers manage through fleet replacement planning and deal with funding uncertainty. So far in 2011, the total bid universe has fluctuated from a high of approximately 12,500 EUs, to a low of just under 10,000 EUs.

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 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 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 (100% locally funded) 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 approximately the rate of inflation.

2011 Third Quarter in Review

Management and the Board of Directors of NFI (the "Board") believe a traditional common share structure and a flexible senior credit facility is in the best interest of New Flyer, its investors and other stakeholders. A common share structure provides the flexibility needed to pursue strategic opportunities for continued long-term growth and diversification. As such, management has completed a number of strategic transactions during 2011 Q3 that were critical to achieving the objective of evolving into a common share structure.

Amended and Restated Senior Credit Agreement

On July 27, 2011, the Company entered into an amended and restated credit facility agreement (the "Credit Facility") in the amount of US$195 million. The Credit Facility refinanced New Flyer's former senior credit facility which was scheduled to mature in April 2012. The 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 delayed draw loan is available to be drawn until July 27, 2012. The Company has withdrawn US$4 million at the end of October 2, 2011 to finance certain capital expenditures to enhance manufacturing capabilities and intends to draw the remaining funds for similar purposes.

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

- until September 30, 2012, a significant cushion of US$15.0 million has been added to the excess cash flow requirement for dividend payments;
- the fixed charge coverage ratio threshold for dividend payments has been reduced from 1.25 to 1.15 times Adjusted EBITDA;
- the maximum senior leverage ratio covenant would increase from 2.25 to 2.50 times Adjusted EBITDA; and
- the maximum total leverage ratio covenant would decrease from 5.25 to 4.75 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 has been made available.

In connection with the Credit Facility, the Company has rolled over the existing interest rate swap designed to hedge floating rate exposure for the term of the 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 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 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 Credit Facility will be less than the amount under the previous credit facility and interest rate swap.

Non-cash rights offering

On August 18, 2011, shareholders of NFI exercised approximately 89% of the rights (“Rights”) issued pursuant to the non-cash rights offering (“Offering”), resulting in 443,790,704 Shares being issued and outstanding. Each Right entitled the holder thereof to purchase nine (9) additional Shares on delivery of the Subordinated Note forming part of the IDS resulting in a reduction in consolidated debt of C$242.3 million.

On September 30, 2011, shareholders of NFI approved the consolidation of the issued and outstanding Shares on the basis of one post-consolidation Share for every ten pre-consolidation Shares held. The Share consolidation has reduced the number of Shares outstanding from 443,790,704 to 44,379,070 (including the Shares forming part of the IDSs that still remain outstanding as a result of holders not exercising the rights issued pursuant to the Offering). At October 2, 2011 there remains C$74.5 million of Subordinated Notes outstanding. Management plans to utilize its call option to redeem the remaining Subordinated Notes on August 19, 2012, market conditions permitting.

Order activity in 2011 Q3

The 2011 Q3 order activity comprises new firm and new option orders of 53 buses (102 EUs) and exercised options of 189 buses (328 EUs) with approximately 84% of the EUs for clean-propulsion vehicles (i.e., hybrid or CNG). The existing backlog position combined with the order intake over the last 12 months is expected to allow the Company to maintain the current production line entry rate of approximately 36 EUs per week through the balance of 2011 and into the start of 2012. This production rate reflects six days during the winter holiday period when the Company does not plan to line enter new buses into production.

Management continues to advise that order activity is inconsistent 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 1,840 EUs and received new orders (firm and options) totaling 880 EUs. This ratio of new orders received to deliveries, at 0.48 to 1, trails the approximately 1.0 to 1.0 ratio during the previous three quarters. Options exercised over the past four quarters total 1,133 EUs while the total volume of new orders and options exercised over this period was 2,013 EUs.

The total backlog at the end of 2011 Q3 was 7,725 EUs, a decrease of 6.6% from the backlog at the end of 2011 Q2. The firm portion of the total backlog at the end of 2011 Q3 was 1,785 EUs, compared with 1,887 EUs at the end of 2011 Q2. The value of the order backlog at the end of 2011 Q3 was $3.3 billion, compared with $3.5 billion at the end of 2011 Q2. This reduction in total backlog was not unexpected, nor inconsistent with management's expectations based on current market conditions. New Flyer's industry leading backlog includes the widest available range of bus models, lengths, and propulsion options for prospective customers allowing flexibility to maintain current production levels, providing flexibility that management believes most other transit bus manufacturers in the industry do not enjoy.

Aftermarket Operations

In aftermarket operations, New Flyer received gross orders during 2011 Q3 that were $1.3 million higher compared to the level of gross orders received during the 13-week period ended October 3, 2010 (“2010 Q3”). The value of the Q3 2011 orders does not include the previously announced vendor-managed inventory (“VMI”) services contract awards for Maryland Transit Administration and Washington Metropolitan Area Transit Authority as the Company calculates gross orders based on purchase orders received, not contract awards. These programs will require New Flyer to provide VMI 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.

Finally, the Company successfully opened the previously announced Eastern Canadian Parts Distribution Center ("PDC") in Brampton, Ontario on schedule and on budget, bringing the total regional PDCs to four (two in Canada and two in the US). The first shipments from the Ontario PDC were made to customers on October 3, 2011.

Fiscal 2011 Third Quarter Financial Results

Consolidated revenue for 2011 Q3 of $229.3 million decreased 10.2% from consolidated revenue for 2010 Q3 of $255.4 million, and consolidated revenue for 2011 YTD of $669.5 million decreased 14.1% from consolidated revenue for the 39-week period ended October 3, 2010 ("2010 YTD") of $779.0 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 Q3 was $200.7 million, a decrease of 12.2% from $228.7 million in 2010 Q3, and revenue of $582.9 million for 2011 YTD decreased 16.5% from $697.9 million for 2010 YTD. The decrease in 2011 Q3 primarily resulted from a 16.0% decrease in total bus deliveries of 442 EUs in 2011 Q3 compared to 2010 Q3 deliveries of 526 EUs offset by a 4.4% increase in average selling price per EU in 2011 Q3 compared to 2010 Q3. The average selling price per EU in 2011 Q3 was $454.2 thousand which increased compared to $434.8 thousand in 2010 Q3, whereas the average selling price per EU decreased to $434.7 thousand in 2011 YTD from $457.9 thousand in 2010 YTD. The increase in average bus selling price during 2011 Q3 is attributed to a mix of products sold with a higher selling price offset by continued price pressure. Bus deliveries in 2011 YTD totaled 1,341 EUs representing a decrease of 12.0% compared to 1,524 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 Q3 of $28.6 million, including $0.3 million related to the delivery of an additional three used buses, increased 6.9% compared to $26.7 million in 2010 Q3. Revenue from aftermarket operations for 2011 YTD was $86.6 million compared to $81.1 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, increased parts volumes and the favourable impact of the stronger Canadian dollar on translation of Canadian dollar sales to U.S. dollars.

Consolidated Adjusted EBITDA for 2011 Q3 totaled $22.2 million compared to $25.2 million in 2010 Q3, which represents a decrease of 11.8%. In comparing the respective periods, this decrease in consolidated Adjusted EBITDA is primarily due to 16.0% fewer bus deliveries offset by the net impact of the appreciation of the value of the Canadian dollar compared to the U.S. dollar which resulted in an increase to Adjusted EBITDA of approximately $3.1 million in 2011 Q3 compared to 2010 Q3 ($2.8 million increase in bus manufacturing operations and a $0.3 million increase in aftermarket operations).

2011 Q3 bus manufacturing operations Adjusted EBITDA of $16.8 million (8.4% of revenue) decreased 12.0% compared with 2010 Q3 bus manufacturing operations Adjusted EBITDA of $19.1 million (8.4% of revenue). This decrease is primarily the result of lower volumes, partially mitigated by the foreign exchange impact. 2011 Q3 aftermarket operations Adjusted EBITDA of $5.4 million (19.0% of revenue) decreased 10.9% compared to $6.1 million (22.8% of revenue) in 2010 Q3, primarily due to the lower margins due to pricing pressure caused by the current aftermarket industry contraction in the U.S.

2011 YTD consolidated Adjusted EBITDA of $64.2 million (9.6% of revenue) decreased by 19.2% compared to 2010 YTD consolidated Adjusted EBITDA of $79.4 million (10.2% of revenue). Bus manufacturing operations Adjusted EBITDA of $45.8 million for 2011 YTD decreased 24.4% compared to $60.6 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 partially offset by $3.7 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 $18.4 million (21.3% of revenue) represents a decrease of 2.2% compared with 2010 YTD aftermarket operations Adjusted EBITDA of $18.8 million (23.2% of revenue) primarily due to the lower margins.

The Company reported net earnings of $15.1 million in 2011 Q3 compared to net loss of $3.2 million in 2010 Q3. The increase in net earnings in 2011 Q3 is primarily attributable to a $16.0 million decrease in non-cash charges to earnings and a $3.1 million increase in income tax recovered when comparing the two periods. The change in non-cash items included in earnings relates primarily to unrealized foreign exchange, loss on debt for equity exchange and amortization. Unrealized foreign exchange gain credited to earnings in 2011 Q3 was $8.2 million compared to a loss of $11.3 million in 2010 Q3 and relate to unrealized foreign exchange on the Subordinated Notes, both forming part of the IDSs and issued separately from the IDSs. The increase in income taxes recovered when comparing the two periods was primarily the result of a $14.5 million increase in future income taxes recovered offset by an $11.5 million increase in current income taxes. Whereas, 2011 YTD net earnings of $1.4 million decreased compared to 2010 YTD net earnings of $16.0 million, primarily due to decreases in earnings from operations, decrease in income taxes recovered partially offset by decrease in interest expense. The primary reason for the increase in the current income tax is due to a one-time income tax charge of $13.4 million relating to the realization of a taxable gain on the refinancing of the credit facility and reallocation of

previously applied foreign tax credits. During 2011 YTD, the Company spent $2.7 million to investigate potential acquisitions and strategic relationships to allow management to commence executing on its strategic plan to grow and diversify the business.

As a result of the Offering, management has adopted the disclosure of Free Cash Flow and has discontinued the disclosure of Distributable Cash and Payout Ratio. Management believes that this is consistent with the practice adopted by many income trusts after their conversion to common share companies. Free Cash Flow allows investors to asses New Flyer's ability to pay dividends to common shareholders, service debt, and meet other payment obligations, and is a common valuation measurement along with Adjusted EBITDA.

The Company generated negative Free Cash Flow of C$(1.7) million during 2011 Q3 while declaring dividends of C$6.7 million. The Company's 2011 Q3 Free Cash Flow was negatively impacted by a one-time income tax charge of $13.4 million (C$13.1 million). By comparison, in 2010 Q3, the Company generated Free Cash Flow of C$9.8 million and declared dividends of C$4.9 million. During 2011 YTD, New Flyer generated Free Cash Flow of C$10.1 million which was also negatively impacted by the one-time income tax charge that occurred in 2011 Q3, and declared dividends of C$16.5 million. In comparison, 2010 YTD Free Cash Flow and declared dividends were C$29.4 million and C$14.3 million, respectively.

During 2011 Q3, the Company decreased its cash by $1.9 million primarily due to $5.7 million of one-time costs associated with share issuance and debt refinancing which was partially offset by $4.0 million of proceeds from the delayed draw component of the Credit Facility.

The October 2, 2011 liquidity position of $99.6 million is comprised of cash of $23.2 million and a $90.0 million secured revolving credit facility. As at October 2, 2011, there were no direct borrowings under this secured revolving credit facility other than $13.6 million of outstanding letters of credits. 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	Q3	$ 229,308	$ 15,764	$ 15,074	$ 18,228	$ 22,206	0.62
	Q2	225,853	12,811	(7,319)	18,765	20,037	(1.48)
	Q1	214,344	14,991	(6,361)	20,943	21,989	(1.29)
	Total	**$ 669,505**	**$ 43,566**	**$ 1,394**	**$ 57,936**	**$ 64,232**	**0.12**
2010	Q4	$ 204,791	$ 11,578	$ (13,623)	$ 9,138	$ 17,822	(2.75)
	Q3	255,447	19,052	(3,215)	25,158	25,163	(0.65)
	Q2	280,540	27,284	33,167	33,183	33,310	6.97
	Q1	242,980	15,310	(13,928)	20,987	20,987	(2.94)
	Total	**$ 983,758**	**$ 73,224**	**$ 2,401**	**$ 88,466**	**$ 97,282**	**0.50**
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	Q3	236	444	442	238	233	5
	Q2	218	449	431	236	224	12
	Q1	209	477	468	218	200	18
	Total	**209**	**1,370**	**1,341**	**238**	**233**	**5**
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 THIRD QUARTER AND TRAILING TWELVE MONTHS RESULTS

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

	13-Weeks Ended October 2, 2011	13-Weeks Ended October 3, 2010	39-Weeks Ended October 2, 2011	39-Weeks Ended October 3, 2010	52-weeks Ended October 2, 2011	52-weeks Ended October 2, 2010[5]
Statement of Earnings Data						
Revenue						
Canada	$ 22,784	$ 66,498	$ 143,663	$ 141,454	$ 272,152	$ 254,379
U.S.	177,962	162,230	439,264	556,453	490,950	666,634
Bus manufacturing operations	200,746	228,728	582,927	697,907	763,102	921,013
Canada	9,626	8,910	28,481	28,854	37,212	38,227
U.S.	18,936	17,809	58,097	52,206	73,982	69,113
Aftermarket operations	28,562	26,719	86,578	81,060	111,194	107,340
Total revenue	$ 229,308	$ 255,447	$ 669,505	$ 778,967	$ 874,296	$ 1,028,353
Earnings from operations	$ 15,764	$ 19,052	$ 43,566	$ 61,646	$ 55,144	$ 80,881
Earnings before interest and income taxes	20,421	7,782	36,791	52,682	33,764	59,953
Net earnings (loss)	15,074	(3,215)	1,394	16,024	(12,229)	8,452
EBITDA[1]	18,228	25,158	57,936	79,328	67,074	104,273
Adjusted EBITDA[1]						
Bus manufacturing operations including realized foreign exchange losses/gains	16,785	19,077	45,833	60,645	58,412	79,538
Aftermarket operations	5,421	6,086	18,399	18,815	23,642	24,867
Total Adjusted EBITDA[1]	$ 22,206	$ 25,163	$ 64,232	$ 79,460	$ 82,054	$ 104,405
Other Data						
Canada	52	182	385	339	775	482
U.S.	390	344	956	1,185	1,065	1,532
Total deliveries (equivalent units)[2]	442	526	1,341	1,524	1,840	2,014
Total capital expenditures	$ 2,952	$ 2,493	$ 5,522	$ 6,089	$ 7,118	$ 10,208
New options awarded	$ 45,778	$ 240,283	$ 205,318	$ 332,504	$ 250,847	$ 516,591
New firm orders awarded	4,345	105,167	80,366	301,234	150,841	325,400
Exercised options	131,490	130,563	461,339	314,186	492,098	417,322
Total firm orders	$ 135,835	$ 235,730	$ 541,705	$ 615,420	$ 642,939	$ 742,722

(Unaudited, US dollars in thousands)	October 2, 2011		January 2, 2011		January 3, 2010	
Selected Balance Sheet Data						
Total assets	$ 846,395		$ 848,933		$ 899,943	
Long-term financial liabilities	298,075		549,865		516,425	
Other Data (unaudited)		Equivalent Units[2]		Equivalent Units[2]		Equivalent Units[2]
Firm orders - USA	$ 735,736	1,605	$ 694,141	1,518	$ 884,347	1,876
Firm orders – Canada	73,554	180	138,517	379	93,407	206
Total firm orders	809,290	1,785	832,658	1,897	977,754	2,082
Options – USA	2,286,308	5,469	2,761,784	6,610	2,653,326	6,365
Options - Canada	185,808	471	83,713	205	217,042	543
Total options	2,472,116	5,940	2,845,497	6,815	2,870,368	6,908
Total Backlog	$ 3,281,406	7,725	$ 3,678,155	8,712	$ 3,848,122	8,990

Equivalent Units in Backlog (unaudited)	39 Weeks Ended October 2, 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	173	477	1,013	914	444	1,402
Options exercised	1,056	(1,056)	825	(825)	1,397	(1,397)
Shipments	(1,341)	—	(2,023)	—	(2,257)	—
Cancelled/expired	—	(296)	—	(182)	—	(130)
End of period	1,785	5,940	1,897	6,815	2,082	6,908

During 2011 Q3, one customer's five-year contract expired, resulting in the reduction of options totaling 206 EUs. Year to date, a total of 296 EUs have expired or 3.5% of the total backlog. Remaining options included in the total backlog will expire, if not exercised, as follows:

2011	233
2012	1,699
2013	2,839
2014	510
2015	526
2016	43
2017	90
Total options	5,940

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 Free Cash Flow” 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 have been retrospectively adjusted to reflect the 10:1 share consolidation that occurred on September 30, 2011.

(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

Management believes that EBITDA and Adjusted EBITDA are important measures in evaluating the historical operating performance and a valuation metric 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 Free Cash Flow" 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 October 2, 2011**	**13-Weeks Ended October 3, 2010**	**39-Weeks Ended October 2, 2011**	**39-Weeks Ended October3, 2010**	**52-weeks Ended October 2, 2011**	**52-Weeks Ended October 3, 2010**[(6)]
Net earnings (loss)	$ 15,074	$ (3,215)	$ 1,394	$ 16,024	$ (12,229)	$ 8,452
Addback[(1)]						
Income taxes	(5,046)	(1,972)	(1,592)	(4,093)	(3,783)	(1,657)
Interest expense	10,393	12,969	36,989	39,125	49,776	50,803
Amortization	6,029	6,111	17,935	17,814	24,179	23,524
Gain on disposal of property, plant and equipment	—	—	—	(16)	(7)	(16)
Fair value adjustment to embedded derivatives	(42)	—	2,463	—	324	—
Fair value adjustment to other liabilities – Class B Shares and Class C Shares	—	—	—	22	—	3,587
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	(8,180)	11,265	747	8,826	8,814	17,225
EBITDA[(2)]	18,228	25,158	57,936	79,328	67,074	104,273
Costs associated with assessing strategic and corporate initiatives[(7)]	413	—	2,731	—	2,731	—
Loss on debt for equity exchange	3,565	—	3,565	—	3,565	—
Warranty expense assumed from the ISE bankruptcy[(5)]	—	—	—	—	8,684	—
Business acquisition related cost[(3)]	—	5	—	132	—	132
Adjusted EBITDA[(2)]	$ 22,206	$ 25,163	$ 64,232	$ 79,460	$ 82,054	$ 104,405

RECONCILIATION OF CASH FLOW TO EBITDA AND ADJUSTED EBITDA

(Unaudited, US dollars in thousands)	13-Weeks Ended October 2, 2011	13-Weeks Ended October 3, 2010	39-Weeks Ended October 2, 2011	39-Weeks Ended October3, 2010	52-weeks Ended October 2, 2011	52-Weeks Ended October 3, 2010[6]
Cash provided (used) by operations	$ 8,995	$ 56,935	$ (27,346)	$ 53,021	$ (9,657)	$ 81,167
Addback[1]						
Changes in non-cash working capital items	(8,101)	(46,234)	37,919	(19,594)	20,488	(39,163)
Defined benefit funding	1,291	1,547	3,760	3,104	4,880	4,473
Defined benefit expense	(456)	(415)	(1,369)	(1,247)	(1,513)	(1,697)
Interest expense	8,762	12,544	35,599	37,576	48,626	49,424
Distributions on Class B Shares and Class C Shares	—	—	—	1,626	—	2,355
Warranty expense assumed from the ISE bankruptcy	—	—	—	—	(8,684)	—
Loss on debt for equity exchange	(3,565)	—	(3,565)	—	(3,565)	—
Foreign exchange gain on cash held in foreign currency	(440)	558	1,582	602	2,983	368
Current income taxes[4]	11,742	223	11,356	4,240	13,516	7,346
EBITDA[2]	18,228	25,158	57,936	79,328	67.074	104,273
Costs associated with assessing strategic and corporate initiatives[7]	413	—	2,731	—	2,731	—
Warranty expense assumed from the ISE bankruptcy[5]	—	—	—	—	8,684	—
Loss on debt for equity exchange	3,565	—	3,565	—	3,565	—
Business acquisition related cost[3]	—	5	—	132	—	132
Adjusted EBITDA[2]	$ 22,206	$ 25,163	$ 64,232	$ 79,460	$ 82,054	$ 104,405

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 Free Cash Flow” 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) Normalized to exclude the non-recurring item related to warranty expense assumed as a result of ISE’s bankruptcy.

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

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

SUMMARY OF FREE CASH FLOW

As a result of the Offering, management has adopted the disclosure of Free Cash Flow and has discontinued the disclosure of Distributable Cash and Payout Ratio. Management believes that this is consistent practice used by the majority of income trusts after their conversion. Management uses Free Cash Flow as a non-IFRS measure to allow investors and analysts to asses New Flyer's ability to pay dividends to common shareholders, service debt, and meet other payment obligations. Free Cash Flow is also a common measure of a company's valuation and liquidity.

The Company generates its Free Cash Flow from its cash flows from operations and management expects this will continue to be the case for the foreseeable future. Cash flows from operating activities are significantly impacted by changes in non-cash working capital. The Company has a revolving credit facility to finance working capital and therefore has excluded the impact of working capital in calculating Free Cash Flow. 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 Free Cash Flow. For example in 2011 Q3, a one-time income tax charge of $13.4 million (C$13.1 million) was imposed relating to the realization of a taxable gain on the refinancing of the credit facility and reallocation of previously applied foreign tax credits, which is equivalent to a reduction in 2011 Q3 Free Cash Flow per common share of C$0.5359. A detailed reconciliation of Free Cash Flow to cash flows from operating activities is shown in the table below under the heading "Summary of Free Cash Flow ".

The following is a reconciliation of cash flows realized from operating activities (an IFRS measure) to Free Cash Flow (a non-IFRS measure) based on the Company's historical financial statements. See "Definitions of EBITDA, Adjusted EBITDA and Free Cash Flow".

(Unaudited, US dollars in thousands)	13-Weeks Ended October 2, 2011	13-Weeks Ended October 3, 2010	39-Weeks Ended October 2, 2011	39-Weeks Ended October3, 2010	52-weeks Ended October 2, 2011	52-Weeks Ended October 3, 2010[10]
Cash provided by operations	$ 8,995	$ 56,935	$ (27,346)	$ 53,021	$ (9,657)	$ 81,167
Changes in non-cash working capital items[4]	(8,101)	(46,234)	37,919	(19,594)	20,488	(39,163)
Principal portion of capital lease payments	(719)	(600)	(2,068)	(1,813)	(2,733)	(2,287)
Capital expenditures	(2,765)	(2,316)	(4,784)	(5,912)	(6,126)	(7,770)
Proceeds from sale of redundant assets	—	—	—	16	7	16
Business acquisition related cost [7]	—	5	—	132	—	132
Costs associated with assessing strategic and corporate initiatives[9]	413	—	2,731	—	2,731	—
Defined benefit funding[5]	1,291	1,547	3,760	3,104	4,880	4,473
Defined benefit expense[5]	(456)	(415)	(1,369)	(1,247)	(1,513)	(1,697)
Foreign exchange gain on cash held in foreign currency[6]	(440)	558	1,582	602	2,983	368
Free Cash Flow (US$)[1]	(1,782)	9,480	10,425	28,309	11,060	35,239
U.S. exchange rate[2]	0.9726	1.0335	0.9721	1.0403	0.9825	1.0484
Free Cash Flow[1] (C$)	**(1,733)**	**9,798**	**10,134**	**29,450**	**10,866**	**36,945**
Free Cash Flow per Share (C$)[8]	(0.0709)	1.9803	0.8853	6.1192	$ 1.1063	$ 7.7086
Declared dividends on Shares (C$)	**6,715**	**4,896**	**16,506**	**14,333**	**21,402**	**19,014**
Declared dividend per Share (C$)[8]	$ 0.2747	$ 0.9896	$ 1.4419	$ 2.9781	$ 2.1789	$ 3.9674

(1) Free Cash Flow is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. Therefore, Free Cash Flow may not be comparable to similar measures presented by other issuers. See "Definitions of EBITDA, Adjusted EBITDA and Free Cash Flow" 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) Issued and outstanding figure is calculated using the weighted average over the period.

(4) Changes in non-cash working capital are excluded from the calculation of Free Cash Flow as these temporary fluctuations are managed through the Company's $90.0 million revolving credit facility which is available for use to fund general corporate requirements including working capital requirements, subject to borrowing capacity restrictions.

(5) 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 Free Cash Flow 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.

(6) 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 Free Cash Flow.

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

(8) Per unit calculations for Free Cash Flow (C$) and declared dividends (C$) are determined by dividing these amounts by the total of all issued and outstanding Shares including IDSs using the weighted average over the period. To reflect the 10:1 share consolidation, a retrospective application is required in calculating the basic and diluted earnings per share using the weighted average number of shares outstanding for 2011 Q3 and 2011 YTD of 24,446,643 and 11,447,233, respectively. The weighted average number of shares outstanding for 2010 Q3 and 2010 YTD, was 4,947,528 and 4,812,721 respectively.

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

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

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. Currently, the Board declares annual dividend payments of C$0.86 per Share. 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. The previous IDS distribution consisted of an annual dividend payment of C$0.396 per Share and an annual interest payment of C$0.774 per C$5.53 principal amount of Subordinated Notes.

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 has decreased IDS distributions (the "Special Distribution") effective with the July 2011 distribution payable on August 15, 2011. The Special Distribution consists of an annual dividend payment of C$0.86 per Share (adjusted from C$0.086 as a result of the Share consolidation effective September 30, 2011) and an annual interest payment of C$0.774 per C$5.53 principal amount of Subordinated Note. The current dividend has increased compared to the previous annual dividend of C$0.396 per Share as a result of the reduced interest costs related to Subordinated Notes exchanged for Shares. The Board expects to maintain this Special Distribution on a monthly basis until no later than August 2012, the month during which NFI ULC has the option to redeem the remaining Subordinated Notes, although such distributions are not assured.

Currency Impact on the Company's Reported Results

The 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 dollars 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, Free Cash Flow is less likely to be affected by Canadian/U.S. dollar exchange rate fluctuations given that 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 October 2, 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 Q3, the realized foreign exchange gains of $2.2 million was comprised of $0.6 million gain on settlement of foreign exchange contracts and a $1.6 million foreign currency gain due to translation of Canadian dollar-denominated operations and distributions.

At October 2, 2011, the Company had $48.5 million foreign exchange forward contracts to buy Canadian dollars at a weighted average agreed Canadian/U.S. dollar foreign exchange rate of $0.9888 that expire in December 2011. The related liability of $2.8 million is recorded on the interim condensed consolidated statement of financial position as a current derivative financial instruments liability 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 income (loss).

Fiscal and Interim Periods

Fiscal 2011 is divided into 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 Q3 (13-Weeks)**	**2010 Q3 (13-Weeks)**	**2011 YTD (39-Weeks)**	**2010 YTD (39-Weeks)**
Bus Manufacturing Revenue	$ 200,746	$ 228,728	$ 582,927	$ 697,907
Aftermarket Revenue	28,562	26,719	86,578	81,060
Total Revenue	$ 229,308	$ 255,447	$ 669,505	$ 778,967
Earnings from operations	15,764	19,052	43,566	61,646
Earnings before interest and income taxes	20,421	7,782	36,791	52,682
Earnings (loss) before income taxes	10,028	(5,187)	(198)	11,931
Net earnings (loss) for the period	15,074	(3,215)	1,394	16,024

Revenue

Consolidated revenue for 2011 Q3 of $229.3 million decreased 10.2% from consolidated revenue for 2010 Q3 of $255.4 million, and consolidated revenue for 2011 YTD of $669.5 million decreased 14.1% from consolidated revenue for 2010 YTD of $779.0 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 Q3 was $200.7 million, a decrease of 12.2% from $228.7 million in 2010 Q3, and revenue of $582.9 million for 2011 YTD decreased 16.5% from $697.9 million for 2010 YTD. The decrease in 2011 Q3 primarily resulted from a 16.0% decrease in total bus deliveries of 442 EUs in 2011 Q3 compared to 2010 Q3 deliveries of 526 EUs offset by a 4.4% increase in average selling price per EU in 2011 Q3 compared to 2010 Q3. The average selling price per EU in 2011 Q3 was $454.2 thousand which increased compared to $434.8 thousand in 2010 Q3, whereas the average selling price per EU decreased to $434.7 thousand in 2011 YTD from $457.9 thousand in 2010 YTD. The increase in average bus selling price during 2011 Q3 is attributed to a mix of products sold with a higher selling price offset by continued price pressure. Bus deliveries in 2011 YTD totaled 1,341 EUs decreased 12.0% compared to 1,524 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 Q3 of $28.6 million, including $0.3 million related to the delivery of an additional three used buses, increased 6.9% compared to $26.7 million in 2010 Q3. Revenue from aftermarket operations for 2011 YTD was $86.6 million compared to $81.1 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, increased volumes and the favourable impact of the stronger Canadian dollar on translation of Canadian dollar sales to U.S. dollars.

Cost of sales

The consolidated cost of sales for 2011 Q3 of $205.6 million decreased 8.8% from 2010 Q3 consolidated cost of sales of $225.4 million. 2011 YTD consolidated cost of sales of $595.9 million decreased by 12.9% from 2010 YTD of $684.5 million.

Costs of sales from bus manufacturing operations consist of direct contract costs and manufacturing overhead. The cost of sales from bus manufacturing operations for 2011 Q3 were $185.2 million decreased 10.7% compared to $207.3 million in 2010 Q3. Whereas, the cost of sales from bus manufacturing operations of $535.3 million in 2011 YTD decreased by 15.0% as compared to $629.6 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.

The cost of sales from aftermarket operations were $20.4 million in 2011 Q3 which increased 12.7% compared to $18.1 million in 2010 Q3, and $60.6 million in 2011 YTD as compared to $54.9 million in 2010 YTD, an increase of 10.4%. The increase in aftermarket operations cost of sales for 2011 Q3 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 costs and other expenses for 2011 Q3 of $10.2 million decreased 5.7% compared with $10.8 million in 2010 Q3. Similarly, SG&A expenses for 2011 YTD were $33.4 million compared with $33.9 million in 2010 YTD.

The 2011 Q3 SG&A costs include $0.4 million of incremental costs to assess strategic and corporate initiatives. 2011 YTD SG&A costs include $2.7 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 Q3, the Company recognized a net realized gain of $2.2 million as compared with a net realized loss of $0.2 million in 2010 Q3 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 $3.4 million as compared with a net realized gain of $1.0 million in 2010 YTD.

Earnings from operations

Consolidated earnings from operations for 2011 Q3 in the amount of $15.8 million (6.9% of revenue) decreased 17.3% compared to earnings from operations in 2010 Q3 of $19.1 million (7.5% of revenue). In 2011 YTD consolidated earnings from operations were $43.6 million (6.5% of revenue), which represents a 29.3% decrease as compared to $61.6 million (7.9% of revenue) in 2010 YTD.

The earnings from bus manufacturing operations (including amortization and depreciation) for 2011 Q3 were $10.4 million decreased 20.0% compared to earnings of $13.0 million for 2010 Q3 (5.2% and 5.7%, respectively, of bus manufacturing revenue). The decrease in earnings during 2011 Q3 is primarily a result of lower volume of deliveries, lower average margins resulting from pricing pressure in the market offset by a favourable 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 $25.2 million (4.3% of revenue), which decreased 41.1% as compared to $42.8 million (6.1% of revenue) in 2010 YTD for similar reasons as which caused the 2011 Q3 decrease as well as $0.9 million of severance costs and $2.7 million of incremental costs to assess strategic and corporate initiatives.

The earnings from aftermarket operations of $5.4 million in 2011 Q3 decreased 10.9% compared to 2010 Q3 earnings of $6.1 million. 2011 Q3 aftermarket operations margin of 19.0% decreased in comparison to 22.8% in 2010 Q3. In 2011 YTD, the earnings from aftermarket operations were $18.4 million (21.3% of revenue), compared to $18.8 million (23.2% of revenue) in 2010 YTD. The decrease is primarily due to the general tightening of margins during the period offset by the used bus sales and the impact of the stronger Canadian dollar compared to the U.S. dollar.

Unrealized foreign exchange (gain) loss

Unrealized foreign currency losses arise primarily from the revaluation of the Canadian dollar-denominated long-term debt. In 2011 Q3, the Company recognized a net unrealized gain of $8.2 million compared to a net unrealized loss of $11.3 million in 2010 Q3, and during 2011 YTD the Company recognized a net unrealized loss of $0.7 million compared to a net unrealized loss of $8.8 million in 2010 YTD.

These results consist of the following:

(Unaudited, US dollars in thousands)	2011 Q3	2010 Q3	2011 YTD	2010 YTD
Unrealized (gain) loss on Canadian–denominated long-term debt	$ (12,062)	$ 12,155	$ (2,197)	$ 8,712
Unrealized (gain) loss on forward foreign exchanges contracts	3,513	(704)	2,824	283
Unrealized (gain) loss on other non-monetary assets/liabilities	369	(186)	120	(169)
	$ (8,180)	$ 11,265	$ 747	$ 8,826

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

In 2011 Q3, the Company recorded EBIT of $20.4 million compared to EBIT of $7.8 million in 2010 Q3 and EBIT of $36.8 million in 2011 YTD compared to EBIT of $52.7 million in 2010 YTD. EBIT have been impacted by non-cash items as follows:

(Unaudited, US dollars in thousands)	2011 Q3	2010 Q3	2011 YTD	2010 YTD
Non-cash charges (recovery):				
Fair value adjustment to other liabilities, Class B Shares and Class C Shares	$ —	$ —	$ —	$ 22
Fair value adjustment to embedded derivatives	(42)	—	2,463	—
Unrealized foreign exchange (gain) loss	(8,180)	11,265	747	8,826
Gain on disposition of property, plant and equipment	—	—	—	(16)
Loss on debt for equity exchange	3,565	—	3,565	—
Amortization	6,029	6,111	17,935	17,814
Total non-cash charges:	$ 1,372	17,376	24,710	26,646

Absent these non-cash charges/recoveries, the 2011 Q3 EBIT would have been $21.8 million compared to $25.2 million in 2010 Q3, and $61.5 million in 2011 YTD compared to $79.3 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 Q3 was $10.4 million compared to $13.0 million in 2010 Q3 and $37.0 million in 2011 YTD representing a decrease compared to $40.8 million in 2010 YTD. Interest expense for 2011 Q3 decreased by $2.6 million primarily due to a $4.5 million decrease in interest on the Subordinated Notes as a result of the Offering, partially offset by $1.2 million of fair value adjustment on the interest rate swap and a $0.8 million increase in other interest and bank charges.

Earnings (loss) before income taxes ("EBT")

Earnings before income taxes for 2011 Q3 was $10.0 million compared to loss before income taxes of $5.2 million in 2010 Q3 and loss before income taxes for 2011 YTD was $0.2 million compared to EBT of $11.9 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 recovered

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 recovered for 2011 Q3 was $5.0 million which increased $3.0 million compared to income tax expense recovered of $2.0 million in 2010 Q3. The increase when comparing the two periods consisted primarily of a $14.5 million increase in future income taxes recovered offset by an $11.5 million increase in current income tax expense. The primary reason for the increase in the current income tax is due to a one-time income tax charge of $13.4 million was imposed relating to the realization of a taxable gain on the refinancing of the credit facility and reallocation of previously applied foreign tax credits. The reason for the relatively large increase in future income tax recovered was also as a result of the realization of the capital gain on the refinancing of the Company's credit facility. These factors also contributed to the increase in current income tax expense for 2011 YTD of $11.4 million compared to the current income tax expense of $4.2 million in 2010 YTD.

Net earnings (loss)

The Company reported net earnings of $15.1 million in 2011 Q3 and net loss of $3.2 million in 2010 Q3. The increase in earnings in 2011 Q3 is primarily attributable to a decrease in non-cash charges as noted above and decreased income tax provision. Similarly, 2011 YTD net earnings of $1.4 million decreased compared to 2010 YTD net earnings of $16.0 million.

Cash Flow

The cash flows of the Company are summarized as follows:

(Unaudited, US dollars in thousands)	2011 Q3	2010 Q3	2011 YTD	2010 YTD
Cash from operating activities before changes in non-cash working capital items	$ 894	$ 10,701	$ 10,573	$ 33,437
Changes in non-cash working capital items	8,101	46,234	(37,919)	19,594
Cash flow from operating activities	8,995	56,935	(27,346)	53,021
Cash flow from financing activities	(7,717)	(5,529)	(19,090)	(16,167)
Cash flow from investing activities	$ (2,765)	$ (2,316)	$ (5,415)	$ (6,981)

Cash flows from operating activities

The 2011 Q3 net operating cash inflow of $9.0 million is the result of $0.9 million of net cash earnings and a decrease of $8.1 million in non-cash working capital, compared to 2010 Q3 net operating cash inflow of $56.9 million, which is the result of $10.7 million of net cash earnings and a decrease of $46.2 in non-cash working capital. Net cash earnings during 2011 Q3 were negatively impacted by the one-time tax charge of $13.4 million relating to the realization of a taxable gain on the refinancing of the credit facility and reallocation of previously applied foreign tax credits.

The 2011 YTD net cash operating outflow of $27.3 million is the result of an increase of $37.9 million in non-cash working capital offset by $10.6 million of net cash earnings compared to 2010 YTD net cash operating inflow of $53.0 million is the result of a decrease of $19.6 million in working capital and $33.4 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 $7.7 million and $5.5 million for 2011 Q3 and 2010 Q3, respectively. The increased outflow primarily relates to $5.7 million of increased costs relating to shares issuance and debt refinancing, $0.6 million increase in dividends paid resulting from the increased number of Shares due to the share issuance upon completion of the Offering, partially offset by $4.0 million of proceeds from the delayed draw component of the Credit Facility.

The Company's financing activities for 2011 YTD resulted in a net cash outflow of $19.1 million, compared to 2010 YTD net cash outflow of $16.2 million.

Cash flow from investing activities

2011 Q3 investing activities resulted in a net cash outflow of $2.8 million compared to $2.3 million in 2010 Q3. As well, investing activities for 2011 YTD resulted in a net cash outflow of $5.4 million compared to $7.0 million in 2010 YTD. In addition to the cash outflow relating to capital expenditures described in the table below, 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 Company's investing activities for 2010 YTD included the acquisition of assets and business of TCB Industries, LLC for $1.1 million.

The composition of the capital expenditures was as follows:

(Unaudited, US dollars in thousands)	2011 Q3	2010 Q3	2011 YTD	2010 YTD
Capital expenditures	$ 2,952	$ 2,390	$ 5,522	$ 5,612
Less capital expenditures funded by capital leases	(187)	(1,334)	(738)	(1,947)
Cash capital expenditure	2,765	1,056	4,784	3,665
Comprised of:				
Maintenance capital expenditures	834	432	1,732	1,433
Growth capital expenditures	1,931	624	3,052	2,232
	$ 2,765	$ 1,056	$ 4,784	$ 3,665

The purpose of the $15.0 million delayed draw loan, included in the Credit Facility, is to finance certain capital expenditures to enhance manufacturing capabilities during the next nine months.

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 negative Free Cash Flow of C$(1.7) million during 2011 Q3 while declaring dividends of C$6.7 million. The Company's 2011 Q3 Free Cash Flow was negatively impacted by a one-time income tax charge of $13.4 million (C$13.1 million). By comparison, in 2010 Q3, the Company generated Free Cash Flow of C$9.8 million and declared dividends of C$4.9 million. During 2011 YTD, New Flyer generated Free Cash Flow of C$10.1 million which was also negatively impacted by the one-time income tax charge that occurred in 2011 Q3, and declared dividends of C$16.5 million. In comparison, 2010 YTD Free Cash Flow and declared dividends were C$29.4 million and C$14.3 million, respectively.

During 2011 Q3, the Company decreased its cash by $1.9 million primarily due to $5.7 million of one-time costs associated with share issuance and debt refinancing which was partially offset by $4.0 million of proceeds from the delayed draw component of the Credit Facility.

The October 2, 2011 liquidity position of $99.6 million is comprised of cash of $23.2 million and a $90.0 million secured revolving credit facility. As at October 2, 2011, there were no direct borrowings under this secured revolving credit facility other than $13.6 million of outstanding letters of credits. 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 October 2, 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)	**October 2, 2011**	**July 3, 2011**	January 2, 2011
Senior Leverage Ratio (must be less than 2.50) (1)	0.92	0.84	0.27
Total Leverage Ratio (must be less than 4.75) (2)	1.79	4.72	3.82
Fixed Charge Coverage Ratio (must be greater than 1.10)	1.22	1.42	1.47

(1) Increased from 2.25 effective August 18, 2011 as per Credit Facility.
(2) Decreased from 5.25 effective August 18, 2011 as per Credit Facility.

Management expects significant improvement in the Fixed Charge Coverage Ratio as a result of the completion of the Offering as interest on IDS Subordinated Notes will decrease due to the elimination of C$242.3 million of Subordinated Notes held by the public.

Interest rate risk

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

The fair value of the interest rate swap of $3.2 million was recorded on the balance sheet as a derivative financial instruments liability at October 2, 2011 ($2.5 million at January 2, 2011) and the change in fair value has been recorded as interest expense for the reported period.

Credit risk

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

experienced nominal bad debts as a result of the customer base being principally comprised of municipal and other local transit authorities.

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

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

	October 2, 2011	January 2, 2011
Current, including holdbacks	$ 66,960	$ 51,317
Past due amounts but not impaired		
1 – 60 days	4,917	4,494
Greater than 60 days	3,842	4,919
Less: Allowance for doubtful accounts	(45)	(21)
Total accounts receivables, net	$ 75,674	$ 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 October 2, 2011, outstanding surety bonds guaranteed by the Company amounted to $41.2 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 the Credit Facility, the Company has established a letter of credit sub-facility of $55.0 million. As at October 2, 2011, letters of credit amounting to $13.6 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	9,242
Collateral in support of self-insured workers' compensation obligations	1,130

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 financial 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 IFRS standards 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 structure entities. Incorporation of disclosures in 2011 statements is 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) 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 has designed and implemented internal control procedures to address this area of weakness and is in the process of evaluating their effectiveness. 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.

October 2, 2011

(Unaudited)

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NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)

For the period ended October 2, 2011

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

	13-Weeks Ended October 2, 2011	13-Weeks Ended October 3, 2010 (Note 14)	**39-Weeks Ended October 2, 2011**	39-Weeks Ended October 3, 2010 (Note 14)
Revenue	$ 229,308	$ 255,447	$ 669,505	$ 778,967
Cost of sales	205,569	225,377	595,887	684,476
Gross profit	23,739	30,070	73,618	94,491
Sales, general and administration costs and other operating expenses	10,192	10,807	33,417	33,860
Foreign exchange loss (gain)	(2,217)	211	(3,365)	(1,015)
Earnings from operations	15,764	19,052	43,566	61,646
Unrealized foreign exchange (gain) loss on non-current monetary items	(8,180)	11,265	747	8,826
Business acquisition related costs	—	5	—	132
Gain on disposition of property, plant and equipment	—	—	—	(16)
Fair value adjustment to embedded derivatives	(42)	—	2,463	—
Loss on debt for equity exchange (note 6a)	3,565	—	3,565	—
Fair value adjustment to other liabilities, Class B Shares and C Shares	—	—	—	22
Earnings before interest and income taxes	20,421	7,782	36,791	52,682
Finance costs				
Interest on long-term debt	7,554	12,097	33,561	36,094
Accretion in carrying value of long-term debt	251	222	735	651
Other interest and bank charges	1,208	447	2,038	1,482
Fair market value adjustment on interest rate swap	1,380	203	655	898
	10,393	12,969	36,989	39,125
Distributions on Class B Shares and Class C Shares	—	—	—	1,626
	10,393	12,969	36,989	40,751
Earnings (loss) before income tax expense	10,028	(5,187)	(198)	11,931
Income tax expense (recovered)				
Current income taxes	11,742	223	11,356	4,240
Deferred taxes recovered	(16,788)	(2,195)	(12,948)	(8,333)
	(5,046)	(1,972)	(1,592)	(4,093)
Net earnings (loss) for the period	$ 15,074	$ (3,215)	$ 1,394	$ 16,024
Other comprehensive loss for the period, net of tax				
Actuarial loss on defined pension plan (note 9)	1,604	—	1,604	—
Comprehensive income (loss) for the period	$ 13,470	$ (3,215)	$ (210)	$ 16,024
Net earnings (loss) per share (basic and diluted) (note 7)	$ 0.62	$ (0.65)	$ 0.12	$ 3.33

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

October 2, 2011

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

	October 2, 2011	January 2, 2011
Assets		
Current		
Cash	$ 23,194	$ 73,463
Accounts receivable (note 3)	75,674	60,709
Inventories (note 4)	118,604	82,882
Prepaid expenses and deposits	3,613	5,196
Derivative financial instruments (note 10b)	—	8
	221,085	222,258
Property, plant and equipment	36,513	37,086
Goodwill and intangible assets	548,359	559,711
Embedded derivative instruments (note 10b)	2,296	4,910
Deferred tax assets (note 5)	38,142	24,968
	$ 846,395	$ 848,933
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 132,728	$ 95,008
Income taxes payable	1,345	—
Deferred revenue	12,674	27,568
Provisions (note 13)	35,011	42,641
Derivative financial instruments (note 10b)	2,816	—
Current portion of performance unit plan liability	1,474	4,142
Current portion of obligations under finance leases	2,438	2,596
	188,486	171,955
Accrued benefit liability	8,648	8,922
Obligations under finance leases	2,374	3,684
Performance unit plan liability	1,427	3,823
Deferred tax liabilities (note 5)	119,537	125,997
Long-term debt (note 6)	162,925	404,929
Derivative financial instruments (note 10b)	3,164	2,510
	486,561	721,820
Commitments and contingencies (note 12)		
Shareholders' equity		
Share capital (note 7)	477,062	226,338
Deficit	(117,228)	(99,225)
	359,834	127,113
	$ 846,395	$ 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 November 7, 2011.

NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended October 2, 2011

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

	Share Capital	Deficit	Total Shareholders' Equity (note 14)
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	(479)	—	(479)
Comprehensive earnings for the period	—	16,024	16,024
Dividends declared on common shares	—	(13,785)	(13,785)
Balance, October 3, 2010 (note 14)	**226,338**	**(77,902)**	**148,436**
Comprehensive loss for the period	—	(16,484)	(16,484)
Dividends declared on common shares	—	(4,839)	(4,839)
Balance, January 2, 2011	**226,338**	**(99,225)**	**127,113**
Shares issued in exchange for Subordinated Notes included in IDS units on August 18, 2011	248,542	—	248,542
Share issuance costs	(4,412)	—	(4,412)
Comprehensive loss for the period	—	(210)	(210)
Dividends declared on common shares	—	(16,716)	(16,716)
Deferred tax assets recognized as a result of historical share issuances	6,594	(1,077)	5,517
Balance, October 2, 2011	**$ 477,062**	**$ (117,228)**	**$ 359,834**

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 October 2, 2011

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

	13-Weeks Ended October 2, 2011	13-Weeks Ended October 3, 2010 (Note 14)	**39-Weeks Ended October 2, 2011**	39-Weeks Ended October 3, 2010 (Note 14)
Cash provided by (used in)				
Operating activities				
Net earnings (loss) for the period	$ 15,074	$ (3,215)	$ 1,394	$ 16,024
Depreciation of plant and equipment	2,031	2,145	5,952	5,915
Amortization of intangible assets	3,998	3,966	11,983	11,899
Gain on disposition of property, plant and equipment	—	—	—	(16)
Deferred taxes recovered	(16,788)	(2,195)	(12,948)	(8,333)
Unrealized loss on interest rate swap	1,380	203	655	898
Unrealized foreign exchange (gain) loss on non-current monetary items	(8,180)	11,265	747	8,826
Accretion in carrying value of long-term debt	251	222	735	651
Foreign exchange loss (gain) on cash held in foreign currency	440	(558)	(1,582)	(602)
Fair value adjustment to embedded derivatives	(42)	—	2,463	—
Loss on debt for equity exchange	3,565	—	3,565	—
Fair value adjustment to other liabilities, Class B Shares and Class C Shares	—	—	—	22
Defined benefit expense (note 9)	456	415	1,369	1,247
Defined benefit funding	(1,291)	(1,547)	(3,760)	(3,104)
Cash from operating activities before changes in non-cash working capital items	894	10,701	10,573	33,427
Changes in non-cash working capital items (note 8)	8,101	46,234	(37,919)	19,594
	8,995	56,935	(27,346)	53,021
Financing activities				
Repayment of obligations under finance leases	(719)	(600)	(2,068)	(1,813)
Costs associated with share issuance	(4,412)	(116)	(4,412)	(479)
Proceeds from issue of long-term debt	4,000	—	4,000	11,565
Costs associated with refinancing or debt issuance	(1,288)	(139)	(1,288)	(588)
Repayment of other liabilities, Class B Shares and Class C Shares	—	—	—	(11,565)
Due from related party – New Flyer LLC (held by management)	—	—	—	383
Dividends paid	(5,298)	(4,674)	(15,322)	(13,670)
	(7,717)	(5,529)	(19,090)	(16,167)
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)
Acquisition of property, plant and equipment	(2,765)	(2,316)	(4,784)	(5,912)
	(2,765)	(2,316)	(5,415)	(6,981)
Effect of foreign exchange rate on cash	(440)	558	1,582	602
(Decrease) increase in cash	(1,927)	49,648	(50,269)	30,475
Cash — beginning of period	25,121	11,523	73,463	30,696
Cash — end of period	$ 23,194	$ 61,171	$ 23,194	$ 61,171

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, and 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's common shares (the "Shares") are listed on the Toronto Stock Exchange ("TSX") under the symbol "NFI" and the Income Deposit Security units ("IDS") of the Company and New Flyer Industries Canada ULC ("NFI ULC") are listed on the TSX under the symbol "NFI.UN". As a result of a consolidation of all of the issued and outstanding Shares on a 10 to 1 basis, effective September 30, 2011, each IDS consists of one Share and C$55.30 principal amount of 14% Subordinated Notes of NFI ULC ("Subordinated Notes").

These financial statements were approved by the Company's board of directors on November 7, 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 consolidated 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 ending 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 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 14 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 October 3, 2010 and a reconciliation of the statement of comprehensive income is for the 13-week period ended October 3, 2010 ("2010 Q3") and 39-week period ended October 3, 2010 ("2010 YTD").

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 condensed 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"), 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.

<u>Critical accounting estimates and assumptions</u>

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 involve significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives.

These significant estimates and assumptions 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 2011 Q1 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 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 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 to each component.

Functional currency

As described in note 2.5 of the 2011 Q1 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.

Valuation of long-term debt and embedded derivative relating to August 18, 2011 debt for equity exchange

Management estimated the fair value of the long term debt and the related embedded derivative asset that were repurchased at August 18, 2011 by using an implied credit spread based on observable quoted prices for similar liabilities in active markets and inputs that are derived from or corroborated by observable market data.

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 financial statements as a result of adopting this standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

IFRS 13 Fair Value Measurement:

IFRS 13 establishes a single framework for fair value measurement as required by other IFRS standards 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 structure entities. Incorporation of disclosures in 2011 statements is 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) 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

	October 2, 2011	January 2, 2011
Trade	$ 70,421	$ 52,487
Income taxes	—	1,505
Other	5,253	6,717
	$ 75,674	$ 60,709

4. INVENTORIES

	October 2, 2011	January 2, 2011
Raw materials	$ 50,051	$ 38,600
Work in process	66,342	42,580
Finished goods	2,211	1,702
	$ 118,604	$ 82,882

During the 13-week period ended October 2, 2011 ("2011 Q3") and the 39-week period ended October 2, 2011 ("2011 YTD"), the Company had a write-down of inventory to net realizable value recorded in cost of sales of $145, and $1,178, respectively and $114 and $503 for 2010 Q3 and 2010 YTD, respectively. 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:

	October 2, 2011	January 2, 2011
As presented on statements of financial position:		
Deferred tax assets	$ 38,142	$ 24,968
Deferred tax liabilities	(119,537)	(125,997)
Deferred taxes (net)	(81,395)	(101,029)

	October 2, 2011	January 2, 2011
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	$ 37,950	$ 33,078
Deferred tax asset to be recovered within 12 months	12,332	8,467
	50,282	41,545
Deferred tax liabilities:		
Deferred tax liability to be paid after more than 12 months	(124,688)	(137,383)
Deferred tax liability to be paid within 12 months	(6,989)	(5,191)
	(131,677)	(142,574)
Deferred taxes (net)	(81,395)	(101,029)

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

	13-Weeks Ended October 2, 2011	39-Weeks Ended October 2, 2011
Beginning of period	$ (102,670)	$ (101,029)
Exchange differences	202	202
Statement of comprehensive income (loss) charge	16,788	12,948
Tax credits recorded in earnings before income taxes	(2,199)	—
Tax charged directly to equity and other comprehensive income (loss)	6,484	6,484
End of period	$ (81,395)	$ (81,395)

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 comprehensive loss charge	364	6,480	4,329	(276)	10,897
October 2, 2011	$ (912)	$ —	$ (130,107)	$ (658)	$ (131,677)

5. DEFERRED TAXES (Continued)

Deferred tax assets	Unrealized Foreign Exchange	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	5,517	(2,386)	(1,089)	(65)	75	2,052
Exchange differences	—	95	17	30	59	201
Tax charged directly to equity and other comprehensive income (loss)	—	—	967	1,808	3,709	6,484
October 2, 2011	$ 5,517	$ 16,692	$ 3,250	$ 7,766	$ 17,057	$ 50,282

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 $13,575 which will more likely than not be applied against future taxable income and therefore a related deferred tax asset has been recorded.

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

	13-Weeks Ended October 2, 2011	13-Weeks Ended October 3, 2010	**39-Weeks Ended October 2, 2011**	39-Weeks Ended October 3, 2010
Earnings (loss) before income tax expense	$ 10,028	$ (5,187)	$ (198)	$ 11,931
Tax calculated using U.S. tax rate	3,511	(1,607)	(68)	3,699
Tax effect of:				
Benefit of deductible share issue costs	—	(109)	—	(433)
Tax recorded through equity	(1,077)	—	(1,077)	—
Withholding and other taxes	383	5	1,662	361
Non-deductible expenses	(258)	30	1,443	94
Revision of tax estimates	49	499	49	478
Impact of subsidiaries' foreign branch operations	—	694	—	1,672
Foreign exchange impact of subsidiaries' foreign branch	(6,872)	5,493	(2,971)	2,765
State taxes	(9)	—	67	—
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	—	—	—	7
Recognition of previously unrecorded assets	—	(6,845)	—	(14,866)
Other	(773)	(132)	(697)	1,626
Income tax expense recovered for the period	$ (5,046)	$ (1,972)	$ (1,592)	$ (4,093)

	13-Weeks Ended October 2, 2011	13-Weeks Ended October 3, 2010	**39-Weeks Ended October 2, 2011**	39-Weeks Ended October 3, 2010
Total current tax for the period	$ 11,742	$ 223	$ 11,356	$ 4,240
Total deferred tax recovered for the period	(16,788)	(2,195)	(12,948)	(8,333)
Income tax expense recovered for the period	$ (5,046)	$ (1,972)	$ (1,592)	$ (4,093)

6. LONG-TERM DEBT

	Final Maturity	Face Value	Unamortized Transaction Costs	**Net Book Value October 2, 2011**	Net Book Value January 2, 2011
Subordinated Notes included in the IDS issue (a)	2020	$ 29,873	$ 238	$ 29,635	$ 272,799
Separate Subordinated Notes (b)	2020	41,223	154	41,069	43,275
Term Credit Facility (c)	2014	94,000	1,779	92,221	88,855
		$ 165,096	$ 2,171	$ 162,925	$ 404,929

Under the terms of the Credit Facility (as defined in (c) below) existing as at October 2, 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 2014.

(a) C$31,313 (January 2, 2011: C$273,599) is the aggregate principal amount of Subordinated Notes denominated in Canadian dollars that mature in August 2020.

On August 18, 2011, the Company completed a non-cash rights offering (the "Offering") which resulted in the repurchase of C$242,285 aggregate principal amount of Subordinated Notes held by the public. Pursuant to the Offering, NFI shareholders of record on July 20, 2011 received one right ("Right") entitling holders to subscribe for and purchase nine (9) additional Shares, such that a holder exercising a Right following the completion of the Offering would hold ten (10) Shares. Each Right was exercisable only on delivery of the Subordinated Note forming part of the IDS. No cash payment was required to exercise the Rights which expired on August 18, 2011 at 5:00 p.m. Eastern Time. A loss of $3,565 was recorded as a result of the debt for equity exchange transaction, $1,598 of which is due to recording shares issued at the estimated fair value of the long-term debt and related embedded derivative and $1,967 was expensed as it related to unamortized transaction costs on Subordinated Notes now owned by NFI.

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.

6. LONG-TERM DEBT (Continued)

(c) On July 27, 2011, the Company entered into a second amended and restated credit facility agreement (the "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$195.0 million. The Credit Facility refinances New Flyer's former senior credit facility which was scheduled to mature in April 2012. The Credit Facility matures on April 24, 2014 and consists of a $105.0 million term loan (the "Term Credit Facility") (including a $15.0 million delayed draw loan) of which $94.0 million was drawn at October 2, 2011 and a US$90.0 million revolver (including a $55.0 million letter of credit sub-facility). There were no drawings on the revolver at October 2, 2011 other than $13,644 of outstanding letters of credits (January 2, 2011: $15,456). The terms of the Credit Facility were not deemed to be significantly different from the former senior credit facility and recorded as a modification of the existing debt with the related transaction costs to be amortized using the effective interest method.

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, NFI and (ii) all of the capital stock of, and inter-company notes owing to NFI 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.

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		**October 2, 2011**	**January 2, 2011**
44,379,070	Common Shares (January 2, 2011: 4,947,528)	$ 477,062	$ 226,338

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

Common Shares	Number (000s)	Net Book Value
Balance – January 2, 2011(previously reported)	49,475	$ 226,338
Retrospective application of share consolidation of ten shares for one on September 30, 2011	(44,527)	—
Balance – January 2, 2011(restated)	4,948	226,338
Common shares issued in exchange for Subordinated Notes included in IDS units on August 18, 2011 (Shares issued 394,315 then consolidated on a ten shares for one basis)	39,431	248,542
Less: share issuance costs	—	(4,412)
Deferred tax assets recognized as a result of historical share issuances	—	6,594
Balance – October 2, 2011	44,379	$ 477,062

On August 18, 2011, shareholders of NFI exercised approximately 89% of the Rights issued pursuant to the Offering, resulting in 443,790,704 Shares being issued and outstanding. See note 6(a) for a description of the material terms of the Offering.

On September 30, 2011, shareholders approved the consolidation of the issued and outstanding Shares on the basis of one post-consolidation Share for every ten pre-consolidation Shares held. The Share consolidation has reduced the number of Shares outstanding from 443,790,704 to 44,379,070 (including the Shares forming part of the IDSs that still remain outstanding as a result of holders not exercising the rights issued pursuant to the Offering). To reflect the 10:1 share consolidation under IAS 33 *Earnings Per Share*, a retrospective application is required in calculating the basic and diluted earnings per share using the weighted average number of shares outstanding for 2011 Q3 and 2011 YTD of 24,446,643 and 11,447,233, respectively. The weighted average number of shares outstanding for 2010 Q3 and 2010 YTD, was 4,947,528 and 4,812,721 respectively.

8. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	**13-Weeks Ended October 2, 2011**	13-Weeks Ended October 3, 2010	**39-Weeks Ended October 2, 2011**	39-Weeks Ended October 3, 2010
Accounts receivable	$ 31,883	$ 38,376	$ (14,965)	$ 19,011
Inventories	(1,505)	19,753	(35,722)	41,323
Prepaid expenses and deposits	632	(234)	1,583	1,786
Accounts payable and accrued liabilities	(19,688)	(10,766)	32,364	(26,736)
Income taxes payable	1,345	—	1,345	—
Deferred revenue	(1,337)	(873)	(14,894)	(14,433)
Provisions	(3,229)	(22)	(7,630)	(1,357)
	$ 8,101	$ 46,234	$ (37,919)	$ 19,594
Supplemental cash flow information				
Cash payments of interest	$ 11,494	$ 13,267	$ 38,027	$ 37,944
Cash payments of income taxes	196	2,466	4,636	8,971

9. EMPLOYEE FUTURE BENEFITS

Defined benefit plan

The Company recorded a net defined benefit pension expense of $456 and $1,369 for 2011 Q3 and 2011 YTD, respectively ($415 and $1,247 for 2010 Q3 and 2010 YTD, respectively). The Company has recorded net actuarial losses of $1,604 (net of income tax recovery of $967) in other comprehensive loss for each of 2011 Q3 and 2011 YTD.

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 $478 and $1,517 for 2011 Q3 and 2011 YTD, respectively ($395 and $1,404 for 2010 Q3 and 2010 YTD, respectively).

Cash payments contributed by the Company during for 2011 Q3 and 2011 YTD for its defined benefit and defined contribution pension plans amounted to $1,769 and $5,277, respectively ($1,942 and $4,508 for 2010 Q3 and 2010 YTD, 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.

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

During 2011 YTD, the Company recorded a realized foreign exchange gain of $592 (2010 YTD: $1,302) relating to the settlement of the foreign exchange forward contracts at an agreed exchange rate.

At October 2, 2011, the Company has foreign exchange forward contracts that range in expiry dates from October to December 2011, the related liability of $2,816 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 earnings (loss) and comprehensive income (loss).

In connection with the Credit Facility, the Company has rolled over the existing interest rate swap designed to hedge floating rate exposure for the term of the Credit Facility on $90,000 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 Credit Facility fixed the interest rate at 2.61% plus the applicable interest margin until April 2012. The fair value of the interest rate swap liability at October 2, 2011 is $3,164 (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 October 2, 2011 is $2,296 (January 2, 2011: $4,910). 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 earnings (loss) and comprehensive income (loss).

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(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 October 2, 2011, the Company had a cash balance of $23,194 and a $90,000 secured revolving credit line. As at October 2, 2011, there were no direct borrowings under this secured revolving credit facility other than $13,644 of outstanding letters of credits.

The Company's principal sources of funds are cash generated from its operating activities and borrowing capacity remaining under the 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 earnings (loss) and comprehensive income (loss) within sales, general and administration costs and other operating expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against sales, general and administration costs and other expenses in the statement of net earnings (loss) and comprehensive income (loss).

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

	October 2, 2011	January 2, 2011
Current, including holdbacks	$ 66,960	$ 51,317
Past due amounts but not impaired		
1 – 60 days	4,917	4,494
Greater than 60 days	3,842	4,919
Less: Allowance for doubtful accounts	(45)	(21)
Total accounts receivables, net	$ 75,674	$ 60,709

As at October 2, 2011, there was no amount that would otherwise be past due or impaired whose terms have been renegotiated.

There are certain financial covenants under the Credit Facility that must be maintained. These financial covenants include a fixed charge coverage ratio, senior leverage ratio and total leverage ratio.

As at October 2, 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:

	October 2, 2011	January 2, 2011
Senior Leverage Ratio (must be less than 2.50) (1)	0.92	0.27
Total Leverage Ratio (must be less than 4.75) (2)	1.79	3.82
Fixed Charge Coverage Ratio (must be greater than 1.10)	1.22	1.47

(1) Increased from 2.25 effective August 18, 2011 as per Credit Facility.
(2) Decreased from 5.25 effective August 18, 2011 as per 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

New Flyer 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, loss on debt for equity exchange and distributions on the former Class B common shares and the Class C common shares of NFL Holdings. Corporate overhead costs are allocated fully to the Bus Operations segment. The Bus Operations segment has recorded vendor rebates of $2,261 (2010: $1,425), which have been recognized into earnings during 2011 YTD, 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.

Segment information about profits and assets is as follows:

	13-Weeks Ended October 2, 2011			
	Bus Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 200,746	$ 28,562	$ —	$ 229,308
Operating costs and expenses	186,591	23,141	—	209,732
Earnings (loss) before income tax expense	14,155	5,421	(9,548)	10,028
Total assets	339,701	96,871	409,823	846,395
Capital expenditures	2,711	54	—	2,765
Goodwill	148,483	53,685	—	202,168

	13-Weeks Ended October 3, 2010			
	Bus Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 228,728	$ 26,719	$ —	$ 255,447
Operating costs and expenses	209,440	20,633	—	230,073
Earnings (loss) before income tax expense	19,288	6,086	(30,561)	(5,187)
Total assets	341,019	85,292	443,653	869,964
Capital expenditures	2,136	180	—	2,316
Goodwill	148,483	53,685	—	202,168

11. SEGMENT INFORMATION (Continued)

	39-Weeks Ended October 2, 2011			
	Bus Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 582,927	$ 86,578	$ —	$ 669,505
Operating costs and expenses	543,190	68,179	—	611,369
Earnings (loss) before income tax expense	39,737	18,399	(58,334)	(198)
Total assets	339,701	96,871	409,823	846,395
Capital expenditures	4,629	155	—	4,784
Goodwill	148,483	53,685	—	202,168

	39-Weeks Ended October 3, 2010			
	Bus Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 697,907	$ 81,060	$ —	$ 778,967
Operating costs and expenses	638,277	62,245	—	700,522
Earnings (loss) before income tax expense	59,630	18,815	(66,514)	11,931
Total assets	341,019	85,292	443,653	869,964
Capital expenditures	5,598	314	—	5,912
Goodwill	148,483	53,685	—	202,168

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 October 2, 2011 range from October 2011 to April 2013. At October 2, 2011, outstanding surety bonds guaranteed by the Company totaled $41,191. 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 October 2, 2011, the Company had a letter of credit sub-facility of $55,000, as part of the bank revolver. As at October 2, 2011, letters of credit totaling $13,644 remain outstanding under the letter of credit facility as security for the following contractual obligations of the Company:

	October 2, 2011
Collateral to secure operating facility leases	$ 272
Collateral to secure surety facilities	3,000
Customer performance guarantees	9,242
Collateral in support of self-insured workers compensation obligations	1,130

As at October 2, 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 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	14,150	1,605	15,755
Amounts used/realized	(20,011)	(1,605)	(21,616)
Exchange differences	(1,769)	—	(1,769)
October 2, 2011	$ 35,011	$ —	$ 35,011

14. 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	October 3, 2010
Shareholders' equity under Canadian GAAP - previously reported		**115,526**
Embedded derivative instrument	G	2,771
Shareholders' equity under Canadian GAAP - restated		**118,297**
Differences that increase (decrease) reported equity:		
1. Goodwill	A	33,562
2. Accrued benefit liability	B, F	(5,387)
3. Deferred Income taxes	E	1,964
Total Shareholders' equity under IFRS		**148,436**

14. RECONCILIATION OF CANADIAN GAAP TO IFRS (Continued)

Reconciliation of Comprehensive Income (loss)

Period ended	Notes	13 weeks ended October 3, 2010	39 weeks ended October 3, 2010
Comprehensive income (loss) under Canadian GAAP		**(3,140)**	**19,753**
Differences that increase (decrease) reported earnings:			
1. Cost of sales			
i) Employee future benefits	B	62	186
ii) Onerous contract provision	C	161	—
2. Foreign exchange loss	D	(242)	(172)
3. Income tax expense	E	(56)	(3,743)
Comprehensive income (loss) under IFRS		**(3,215)**	**16,024**

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 earnings (loss) and comprehensive income (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.

14. RECONCILIATION OF CANADIAN GAAP TO IFRS (Continued)

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).

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 earnings (loss) and comprehensive income (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 the 52-week period ended January 2, 2011 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 October 2, 2011 is $2,296.