

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. **The securities offered by this short form prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended (the “U.S. Securities Act”), or the securities laws of any state of the United States. Accordingly, these securities may not be offered, sold or delivered, directly or indirectly, within the United States of America, its territories and possessions, any state of the United States or the District of Columbia (collectively, the “United States”), except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. This short form prospectus does not constitute an offer to sell or the solicitation of an offer to buy the securities offered hereby within the United States. See “Plan of Distribution”.**

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of New Flyer Industries Inc. at 711 Kernaghan Avenue, Winnipeg, Manitoba, R2C 3T4, telephone (204) 224-1251, and are also available electronically at www.sedar.com.

SHORT FORM PROSPECTUS

New Issue

May 29, 2012



NEW FLYER INDUSTRIES INC.

US\$65,000,000

6.25% Convertible Unsecured Subordinated Debentures

Price: US\$1,000 per Debenture

New Flyer Industries Inc. (“**NFI**”) is hereby qualifying for distribution (the “**Offering**”) US\$65,000,000 aggregate principal amount of 6.25% convertible unsecured subordinated debentures of NFI (the “**Debentures**”) at a price of US\$1,000 per Debenture. The Debentures will be due on June 30, 2017 (the “**Maturity Date**”). The Debentures bear interest at an annual rate of 6.25% payable in semi-annual payments in arrears on June 30 and December 31 in each year, commencing December 31, 2012. The first interest payment on the Debentures will include accrued and unpaid interest for the period from the date of closing of the Offering to, but excluding, December 31, 2012. On the Maturity Date, the Debentures may, at the option of NFI, be repaid in cash or common shares of NFI (the “**Common Shares**”). See “Description of the Debentures”.

There is currently no market through which the Debentures may be sold and purchasers may not be able to resell the Debentures purchased under this short form prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities and the extent of issuer regulation. See “Risk Factors”. The Toronto Stock Exchange (“**TSX**”) has conditionally approved the listing of the Debentures (including the Debentures issuable pursuant to the Over-Allotment Option (as defined herein)) and the Common Shares issuable upon the conversion of the Debentures (including the Common Shares issuable on a conversion premium in the event of a Cash Change of Control (as defined herein)). Listing is subject to NFI fulfilling all of the requirements of the TSX on or before August 20, 2012. The outstanding Common Shares are listed for trading on the TSX under the symbol “**NFI**”. The price of the Common Shares on the TSX at the close of business on May 14, 2012 (the last trading day prior to the announcement of the Offering) was C\$7.15 per Common Share. The price of the Common Shares on the TSX at the close of business on May 28, 2012 (the last trading day prior to the date of this short form prospectus) was C\$7.00 per Common Share.

Debenture Conversion Privilege

Each Debenture will be convertible into Common Shares at the option of the holder at any time prior to the close of business on the earliest of (i) the business day immediately preceding the Maturity Date; (ii) if called for redemption, the business day immediately preceding the date specified by NFI for redemption of the Debentures; or (iii) if called for repurchase pursuant to a Change of Control (as defined herein), the business day immediately preceding the payment date, at a conversion price of US\$10.00 per Common Share (the “**Conversion Price**”) (equivalent to C\$10.24 per Common Share, based on the Bank of Canada noon rate of exchange of 1.0241 on May 28, 2012), being a conversion rate of 100 Common Shares for each US\$1,000 principal amount of Debentures, subject to adjustment in certain events in accordance with the trust indenture governing the terms of the Debentures (the “**Indenture**”). Holders converting their Debentures will receive accrued and unpaid interest thereon for the period from the last interest payment date to, but excluding, the date of conversion. Further particulars concerning the conversion privilege, including provisions for the adjustment of the Conversion Price in certain events, are set out under “Description of the Debentures — Conversion Privilege”.

The Debentures may not be redeemed by NFI prior to June 30, 2015, except in the event of the satisfaction of certain conditions after a Change of Control (as defined herein) has occurred. On and after June 30, 2015 and prior to the Maturity Date, the Debentures may be redeemed by NFI, in whole or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest to, but excluding, the date of redemption on not more than 60 days' and not less than 30 days' prior written notice, provided that the Current Market Price (as defined herein) on the date on which notice of redemption is given is not less than 125% of the Conversion Price.

Subject to any required regulatory approvals and provided that no Event of Default (as defined herein) has occurred and is continuing, NFI may, at its option, elect to satisfy its obligation to pay, in whole or in part, the principal amount of the Debentures that are to be redeemed or that have matured, on not more than 60 days' and not less than 40 days' prior notice, by issuing that number of freely-tradeable Common Shares obtained by dividing the principal amount of the Debentures that are to be redeemed or that have matured, as the case may be, by 95% of the Current Market Price on the fifth trading day preceding the date fixed for redemption or the Maturity Date, as applicable. See "Description of the Debentures — Payment Upon Redemption or Maturity". In addition, subject to any required regulatory approvals and provided that no Event of Default has occurred and is continuing, freely-tradeable Common Shares may be issued to the Debenture Trustee (as defined herein) and sold, with the proceeds used to satisfy the obligation to pay interest on the Debentures. See "Description of the Debentures — Interest Payment Election".

Within 30 days following the occurrence of a Change of Control, NFI will be required to make an offer to purchase the Debentures for a price equal to 100% of the principal amount thereof plus accrued and unpaid interest thereon to, but excluding, the date of purchase. Holders of Debentures may accept this offer in whole or in part. See "Description of the Debentures — Change of Control".

	<u>Price to the Public</u>	<u>Underwriters' Fee⁽¹⁾</u>	<u>Net Proceeds to NFI⁽²⁾</u>
Per Debenture	US\$1,000	US\$40	US\$960
Total ⁽³⁾	US\$65,000,000	US\$2,600,000	US\$62,400,000

Notes:

- (1) The Underwriters' Fee is equal to 4.0% of the principal amount of the offered Debentures.
- (2) After deducting the Underwriters' Fee but before deducting expenses of the Offering estimated to be C\$850,000.
- (3) NFI has granted to the Underwriters an option (the "Over-Allotment Option"), exercisable in whole or in part at any time until the date that is 30 days following the date of the closing of the Offering, to purchase up to US\$9,750,000 aggregate principal amount of Debentures on the same terms as set forth above solely to cover over-allotments, if any. If the Over-Allotment Option is exercised in full, the total Price to the Public, Underwriters' Fee and Net Proceeds to NFI (before deducting expenses of the Offering) will be US\$74,750,000, US\$2,990,000 and US\$71,760,000, respectively. This short form prospectus also qualifies the grant of the Over-Allotment Option and the issuance of Debentures on the exercise of the Over-Allotment Option. A purchaser who acquires Debentures forming part of the Underwriters' over-allocation position acquires those Debentures under this short form prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See "Plan of Distribution".

<u>Underwriters' Position</u>	<u>Maximum Size or Number of Securities Held</u>	<u>Exercise Period</u>	<u>Exercise Price</u>
Over-Allotment Option	US\$9,750,000 aggregate principal amount of Debentures	At any time until 30 days following closing of the Offering	US\$1,000 per Debenture

The price of the Debentures offered under this short form prospectus was established by negotiation between NFI and BMO Nesbitt Burns Inc. and CIBC World Markets Inc., on their own behalf and on behalf of National Bank Financial Inc., TD Securities Inc., Scotia Capital Inc., Canaccord Genuity Corp. and PI Financial Corp. (collectively, the "Underwriters").

There are certain risks inherent in an investment in the Debentures, in the Common Shares issuable on the conversion, redemption or repayment at maturity, as the case may be, of the Debentures, and in NFI's activities. Prospective investors should carefully consider these risks before purchasing Debentures. See "Risk Factors". In the opinion of counsel, the Debentures being offered pursuant to this short form prospectus and the Common Shares issuable on the conversion, redemption or maturity of the Debentures, if issued on the date hereof, will be qualified investments under the Tax Act (as defined herein) for Plans (as defined herein) as set out, and based upon the assumptions set out, under "Eligibility for Investment".

The Underwriters, as principals, conditionally offer the Debentures, subject to prior sale, if, as and when created, sold and delivered by NFI and accepted by the Underwriters in accordance with the conditions of the Underwriting Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on NFI's behalf by Torys LLP and on behalf of the Underwriters by Goodmans LLP.

In connection with this Offering, the Underwriters may effect transactions that stabilize or maintain the market price of the Debentures at levels other than those which otherwise might prevail on the open market. **The Underwriters may offer the Debentures at a price lower than that stated above. Any such reduction will not affect the proceeds received by NFI. See “Plan of Distribution”.**

Subscriptions will be received subject to rejection or allotment in whole or in part, and the Underwriters reserve the right to close the subscription books at any time without notice. The Debentures will be available in book-entry only form through the facilities of CDS Clearing and Depository Services Inc. (“CDS”) or its nominee, as registered global securities and will be deposited with CDS on the closing of the Offering, which is expected to occur on June 5, 2012, or such other date as NFI and the Underwriters may agree, but no later than June 29, 2012. Holders of beneficial interests in the Debentures will not have the right to receive physical certificates evidencing their ownership of Debentures.

Certain of the Underwriters’ affiliates are lenders to subsidiaries of NFI under the Credit Agreement (as defined herein). Consequently, NFI may be considered a “connected issuer” of each such Underwriter under applicable securities laws in certain Canadian provinces. See “Relationship Between NFI and Certain Underwriters” and “Plan of Distribution”.

NFI’s registered office is located at Suite 3000, 79 Wellington Street West, Toronto, Ontario, M5K 1N2.

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ELIGIBILITY FOR INVESTMENT

In the opinion of Torys LLP, counsel to NFI, and Goodmans LLP, counsel to the Underwriters, based on the provisions of the *Income Tax Act* (Canada) as amended, including the regulations promulgated thereunder (the “**Tax Act**”) in force on the date hereof, provided that the Common Shares are listed on a designated stock exchange (which includes the TSX), the Debentures being offered pursuant to this short form prospectus and the Common Shares issuable on the conversion, redemption or maturity of the Debentures, if issued on the date hereof, would be qualified investments under the Tax Act on the date hereof for trusts governed by registered retirement savings plans (“**RRSPs**”), registered retirement income funds (“**RRIFs**”), deferred profit sharing plans (except, in the case of the Debentures, a deferred profit sharing plan to which NFI, or an employer that does not deal at arm’s length with NFI, has made a contribution), registered education savings plans, registered disability savings plans and tax-free savings accounts (“**TFSAs**”) (collectively, “**Plans**”).

Notwithstanding that the Debentures and Common Shares may be qualified investments as discussed above, if the Debentures or the Common Shares are “prohibited investments” for the purposes of the Tax Act, the holder of a TFSA or the annuitant under an RRSP or RRIF which holds such Debentures or Common Shares will be subject to a penalty tax. Provided that the holder or the annuitant deals at arm’s length with NFI for the purposes of the Tax Act and does not have a “significant interest” (as defined in the Tax Act for the purposes of the prohibited investment rules) in NFI or a corporation, partnership or trust with which NFI does not deal at arm’s length for the purposes of the Tax Act, the Debentures and Common Shares issuable on the conversion, redemption or maturity of the Debentures will not be “prohibited investments” for the purposes of the Tax Act.

Prospective investors who intend to hold the Debentures or Common Shares in their TFSA, RRSP or RRIF should consult their own tax advisors as to whether the Debentures or the Common Shares issuable on the conversion, redemption or maturity of the Debentures would constitute a prohibited investment for their TFSA, RRSP or RRIF, as the case may be.

DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of NFI at 711 Kernaghan Avenue, Winnipeg, Manitoba, R2C 3T4, telephone (204) 224-1251. In addition, copies of the documents incorporated by reference herein may be obtained from the securities commissions or similar authorities in Canada on the System for Electronic Document Analysis and Retrieval (“**SEDAR**”) at www.sedar.com.

The following documents, filed with the securities commissions or similar authorities in the provinces and territories of Canada, are specifically incorporated by reference into and form an integral part of this short form prospectus:

- (a) the annual information form of NFI and New Flyer Industries Canada ULC (“**NFI ULC**”) dated March 30, 2012 (the “**AIF**”);
- (b) the management information circular of NFI dated March 28, 2012, distributed in connection with the annual meeting of shareholders held on May 10, 2012;
- (c) the management information circular of NFI dated August 29, 2011, distributed in connection with the special meeting of shareholders held on September 30, 2011;
- (d) the audited consolidated financial statements of NFI as at January 1, 2012, January 2, 2011 and January 4, 2010 and for the 52 weeks ended January 1, 2012 and January 2, 2011, together with the notes thereto and the auditor’s report thereon;
- (e) management’s discussion and analysis of financial condition and results of operations of NFI for the 13 weeks and 52 weeks ended January 1, 2012 (“**Annual MD&A**”);
- (f) the unaudited interim condensed consolidated financial statements of NFI for the 13 weeks ended April 1, 2012 and 13 weeks ended April 3, 2011, together with the notes thereto;
- (g) management’s discussion and analysis of financial condition and results of operations of NFI for the 13 weeks ended April 1, 2012 (“**Interim MD&A**”, and together with the Annual MD&A, the “**MD&A**”); and
- (h) the material change report of NFI dated May 22, 2012 regarding the Offering.

Any material change reports (excluding confidential reports), business acquisition reports, interim financial statements, annual financial statements and the auditors’ report thereon, management’s discussion and analysis of financial condition and results of operations in respect of the periods covered by such interim or annual financial statements, and management information circulars filed by NFI with the securities commissions or similar authorities in the provinces and territories of Canada subsequent to the date of this short form prospectus and prior to the termination of this distribution shall be deemed to be incorporated by reference in this short form prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed document that also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that was required to be stated or that was necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus.

GENERAL MATTERS

References in this short form prospectus to the “Company” are to NFI and its consolidated subsidiaries.

In this short form prospectus, references to “C\$” and “Canadian dollars” are to the lawful currency of Canada and references to “\$”, “US\$” and “U.S. dollars” are to the lawful currency of the United States. **All dollar amounts herein are in U.S. dollars, unless otherwise stated.**

Although the Company has substantial business activities in Canada, a significant portion of the Company’s business is conducted in the United States and most of the Company’s revenue and a significant portion of its expenses are denominated, earned and incurred primarily in U.S. dollars. Accordingly, the consolidated financial statements of NFI incorporated by reference in this short form prospectus are presented in U.S. dollars. The following table sets forth, for each period indicated, the high and low exchange rates for one U.S. dollar, expressed in Canadian dollars, the average of such exchange rates on the last business day of each calendar month during such period, and the exchange rate on the last business day of such period, in each case based on the noon rate in Canadian dollars on such day as quoted by the Bank of Canada. On

May 28, 2012, the exchange rate for one U.S. dollar expressed in Canadian dollars based upon the noon rate provided by the Bank of Canada was US\$1.00 = C\$1.0241.

	<u>52 weeks Ended January 1, 2012</u>	<u>52 weeks Ended January 2, 2011</u>	<u>13 Weeks Ended April 1, 2012</u>	<u>13 Weeks Ended April 3, 2011</u>
High for the period.....	1.0604	1.0778	1.0272	1.0022
Low for the period	0.9449	0.9946	0.9849	0.9629
Average.....	0.9891	1.0299	1.0011	0.9852
Period End	1.0170	0.9946	0.9991	0.9629

Notes:

⁽¹⁾ Source: Bank of Canada.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this short form prospectus are “forward-looking statements”, which reflect the expectations of management regarding 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 short form prospectus. 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 and to exercise options and to purchase 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 certain Canadian content purchasing policies 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. NFI cautions that this list of factors is not exhaustive. These factors and other risks and uncertainties are discussed in the Company’s press releases and materials filed with the Canadian securities regulatory authorities which are available on SEDAR at www.sedar.com.

Although the forward-looking statements contained in this short form prospectus 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 short form prospectus and NFI assumes no obligation to update or revise them to reflect new events or circumstances, except as required by applicable securities laws.

SUMMARY OF THE OFFERING

This summary is qualified by, and should be read in conjunction with, the detailed information contained elsewhere in this short form prospectus. For a more complete description of the terms of the Debentures, see "Description of the Debentures".

- Issue:** US\$65,000,000 aggregate principal amount of Debentures. NFI has granted the Over-Allotment Option entitling the Underwriters to purchase up to an additional US\$9,750,000 aggregate principal amount of Debentures at any time up to 30 days following closing of the Offering to cover over-allotments, if any.
- Price:** US\$1,000 per Debenture.
- Maturity Date:** June 30, 2017.
- Interest:** 6.25% per annum, which will be payable in semi-annual payments in arrears on June 30 and December 31 in each year, commencing on December 31, 2012. The first interest payment on the Debentures will include accrued and unpaid interest for the period from the closing of the Offering to, but excluding, December 31, 2012. See "Description of the Debentures — General."
- Unless an Event of Default has occurred and is continuing, NFI may elect, at any time and from time to time, subject to applicable regulatory approval, to satisfy all or part of its obligation to pay interest on the Debentures, on the date it is payable under the Indenture (as defined herein) (i) in cash; (ii) by delivering Common Shares to the Debenture Trustee (as defined herein), for sale, to satisfy the interest obligations in accordance with the Indenture in which event, holders of the Debentures will be entitled to receive a cash payment equal to the interest payable from the proceeds of the sale of such Common Shares; or (iii) any combination of (i) and (ii) above. See "Description of the Debentures — Interest Payment Election."
- Conversion:** The Debentures will be convertible at the holder's option into fully-paid, non-assessable and freely-tradeable Common Shares at any time prior to the close of business on the earliest of (i) the business day immediately preceding the Maturity Date; (ii) if called for redemption, the business day immediately preceding the date specified by NFI for redemption of the Debentures; or (iii) if called for repurchase pursuant to a Change of Control (as defined herein), the business day immediately preceding the payment date, at the Conversion Price, subject to adjustment in certain events in accordance with the Indenture. Holders converting their Debentures will receive accrued and unpaid interest thereon for the period from the last interest payment date to, but excluding, the date of conversion. See "Description of the Debentures — Conversion Privilege."
- Redemption:** The Debentures will not be redeemable before June 30, 2015, except in the event of the satisfaction of certain conditions after a Change of Control (as defined herein) has occurred. On and after June 30, 2015 and prior to the Maturity Date, the Debentures will be redeemable, in whole or in part from time to time, at the option of NFI on not more than 60 days' and not less than 30 days' prior written notice at a price equal to the principal amount of the Debentures plus accrued and unpaid interest to, but excluding, the date of redemption, provided that the Current Market Price on the date on which notice of redemption is given is not less than 125% of the Conversion Price. See "Description of the Debentures — Redemption and Purchase."
- Payment of Principal Amount in Common Shares:** NFI may, at its option, on not more than 60 and not less than 40 days' prior notice and subject to applicable regulatory approval and provided that no Event of Default has occurred and is continuing, elect to satisfy its obligation to pay, in whole or in part, the principal amount of the Debentures which are to be redeemed or the principal amount of the Debentures which are due on the Maturity Date, as the case may be, by issuing freely-tradeable Common Shares to the holders of the Debentures. The number of Common Shares to be issued will be determined by dividing the aggregate principal amount of the outstanding Debentures which are to be redeemed or the aggregate principal amount of the outstanding Debentures which have matured, as the case may be, by 95% of the Current Market Price on the fifth trading day preceding the date fixed for redemption or the Maturity Date, as the case may be. See "Description of the Debentures — Payment Upon

Redemption or Maturity.”

Change of Control: Within 30 days following the occurrence of a Change of Control, NFI will be required to make an offer to purchase the Debentures (the “**Offer to Purchase**”) for a price equal to 100% of the principal amount of such Debentures plus accrued and unpaid interest to, but excluding, the date of purchase (the “**Offer Price**”). Holders of Debentures may accept this offer in whole or in part.

If holders of 90% or more in aggregate principal amount of the Debentures outstanding on the date NFI delivers the Offer to Purchase to the Debenture Trustee accept the Offer to Purchase, NFI will have the right to redeem all the remaining Debentures on such date at the Offer Price. See “Description of the Debentures — Change of Control.”

Additionally, if a Change of Control occurs in which 10% or more of the consideration for the Common Shares in the transaction or transactions constituting a Change of Control consists of: (a) cash; (b) equity securities, including trust units, limited partnership units or other participating securities of a trust, limited partnership or similar entity, that are not traded or intended to be traded immediately following such transactions on a recognized stock exchange; or (c) other property that is not traded or intended to be traded immediately following such transactions on a recognized stock exchange, then, subject to regulatory approval, during the period beginning 10 trading days before the anticipated date on which the Change of Control becomes effective and ending 30 days after NFI delivers notice to the Debenture Trustee of the occurrence of such Change of Control, holders of Debentures will be entitled to convert their Debentures and receive, in addition to the number of Common Shares they would otherwise be entitled to receive, subject to and following completion of such Change of Control, an additional number of Common Shares per US\$1,000 principal amount of Debentures as set forth in the table under the heading “Make-Whole Premium Upon Cash Change of Control”. See “Description of the Debentures — Cash Change of Control.”

Current Market Price: “Current Market Price” means the arithmetic average of the U.S. dollar equivalent of the daily volume weighted average price of the Common Shares on the TSX for the 20 consecutive trading days ending on the applicable date. The U.S. dollar equivalent for each trading day will be calculated as the volume weighted average trading price of the Common Shares on the TSX for such date multiplied by the applicable noon rate of exchange as reported by the Bank of Canada for such date.

Use of Proceeds: The net proceeds from the Offering will be used to redeem (or otherwise repurchase) in full the outstanding C\$58,821,510.62 aggregate principal amount of Subordinated Notes (as defined herein) (plus the applicable premium and accrued interest amounts) held by third parties and the balance will be used for general corporate purposes.

Rank and Subordination: The Debentures will be direct, subordinated, unsecured obligations of NFI and will rank equally with one another and subordinate to all other existing and future senior secured and senior unsecured indebtedness of NFI, including all trade creditors, and will rank *pari passu* to all future subordinated unsecured indebtedness. The Indenture setting out the terms of the Debentures will not restrict NFI or its subsidiaries from incurring additional indebtedness or from mortgaging, pledging or charging its properties to secure any indebtedness or liabilities.

The payment of the principal of, and interest on, the Debentures will be subordinated in right of payment in the circumstances set forth in the Indenture, to the prior payment in full of all Senior Indebtedness (as defined in the Indenture and summarized herein). See “Description of the Debentures — Rank and Subordination.”

Events of Default: The Indenture will provide that an event of default (an “**Event of Default**”) in respect of the Debentures will occur if any one or more of the following described events has occurred with respect to the Debentures: (i) failure for 30 days to pay interest on the Debentures when due; (ii) failure to pay the principal or premium, if any, on the Debentures when due, whether at the Maturity Date, upon redemption, by declaration or otherwise; (iii) material default in performing or observing any of the other covenants, agreements or obligations of NFI to be described in the Indenture; and (iv) certain events of bankruptcy, insolvency or reorganization of NFI under bankruptcy or insolvency laws. If an Event of Default has occurred and is continuing, the Debenture Trustee may, in its discretion, and shall, upon request of holders of not less than 25% in principal amount of the

Debentures then outstanding under the Indenture, declare the principal amount of and interest on all Debentures then outstanding under the Indenture to be immediately due and payable. Certain Events of Default may be waived by written direction of the holders of at least 50% of the principal amount of the outstanding Debentures or by the Debenture Trustee in certain circumstances in accordance with the terms of the Indenture. See “Description of the Debentures — Events of Default.”

- Form and Denomination:** The Debentures will be issued in minimum denominations of US\$1,000 and any integral multiples thereof.
- Global Debentures:** Except in certain limited circumstances, the Debentures will be issued in “book-entry only” form and must be purchased or transferred through a participant in the depository service of CDS. On the closing of the Offering, the Debenture Trustee will cause the Debentures to be delivered to CDS and registered in the name of its nominee. The Debentures will be evidenced by one or more book-entry only global certificates. Registration of interests in and transfers of the Debentures will be made only through the depository service of CDS. See “Description of the Debentures — Global Debentures”.
- Governing Law:** The Debentures and the Indenture under which the Debentures will be issued will be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.
- Risk Factors:** See “Risk Factors” and the other information included in or incorporated by reference in this short form prospectus for a discussion of the factors that should be carefully considered before making a decision to invest in the Debentures.

DESCRIPTION OF BUSINESS

NFI is a corporation established under the laws of the Province of Ontario. The registered office of NFI is located at Suite 3000, 79 Wellington Street West, Toronto, Ontario, M5K 1N2. NFI directly owns 100% of the economic and voting interest in New Flyer Holdings, Inc. and indirectly owns 100% of the equity and voting interest in NFI ULC.

The Company, founded in 1930 and headquartered in Winnipeg, Manitoba, is the leading manufacturer of heavy-duty transit buses in the United States and Canada and a leading provider of aftermarket parts and support. The Company designs and manufactures a variety of heavy-duty transit buses in 35-foot, 40-foot and 60-foot (articulated) body lengths with diverse propulsion systems, including diesel, diesel-electric hybrid systems, compressed natural gas or liquid natural gas systems and zero emission electric trolleys. The Company developed a 40-foot hydrogen fuel cell bus in 2010. In addition to its engineering and manufacturing capabilities, the Company maintains one of the industry's leading aftermarket parts and support organizations, which is responsible for supporting an extensive range of post-sale activities, including parts distribution, support documentation and training.

Recent Developments

Joint Venture to Introduce a North American "Midi-Bus"

On May 7, 2012, NFI announced entering into a long-term joint venture with Alexander Dennis Limited ("**Alexander Dennis**"), the U.K.'s largest manufacturer of medium, heavy-duty and double-deck transit buses and coaches. The Company will collaborate with Alexander Dennis to introduce a North American medium-duty low-floor bus (or "**midi bus**"). The Company estimates the market for this type of product could be approximately 1,000 buses on an annual basis. Under the new joint venture, the Company will be responsible for sales, marketing, manufacturing and aftermarket support and Alexander Dennis will be responsible for performing engineering, testing and prototype development activities. Prototypes of the New Flyer/Alexander Dennis midi bus for North America are expected to be built this summer, with a planned market launch in early 2013. The midi bus is expected to be offered to both public transit and private operators and have propulsion system options including clean diesel, electric hybrid and compressed natural gas.

Regulatory Developments

There is new legislation in California being proposed to address maximum axle weight to raise the weight applicable to transit buses to a level where most operators and manufacturers would not be in compliance (most transit bus operators and manufacturers (including the Company) are currently not in compliance with existing axle weight requirements, which have generally not been enforced). The proposed legislation is currently being considered by the California state assembly and transit bus operators and manufacturers are lobbying for an exemption or delay in the implementation of the proposed legislation or for an amendment to provide more reasonable weight limits for transit buses. While management is hopeful that a workable solution will be found, there can be no assurances as to the final content of the legislation or the timing of its implementation. If the final legislation does not provide an adequate raised maximum axle weight and such legislation is enforced, then the Company and other manufacturers may incur material costs as a result of contractual and warranty claims by customers and redesign requirements for new buses. See also the AIF, including in particular the disclosure under "Legal and Regulatory Matters" contained therein, available on SEDAR at www.sedar.com.

CONSOLIDATED CAPITALIZATION

There have been no material changes in the consolidated share and loan capital of NFI from April 1, 2012 to the date of this short form prospectus.

The Company intends to use the net proceeds of the Offering to redeem (or otherwise repurchase) in full the outstanding C\$58,821,510.62 aggregate principal amount of subordinated notes of NFI ULC (the "**Subordinated Notes**") (plus the applicable premium and accrued interest amounts) held by third parties and the balance will be used for general corporate purposes. After giving effect to the Offering and the redemption of the Subordinated Notes, the total long term indebtedness of NFI is expected to be equal to approximately US\$181 million (US\$190.75 million if the Over-Allotment Option is exercised in full). See "Use of Proceeds".

EARNINGS COVERAGE

The following earnings coverage ratios are calculated on a consolidated basis for the 52-week period ended January 1, 2012 and the 52-week period ended April 1, 2012. NFI has adopted International Financial Reporting Standards (“IFRS”) effective for interim and annual periods commencing January 4, 2010.

	52 weeks ended January 1, 2012 after giving effect to the issuance of the Debentures and the use of proceeds of the Offering ⁽²⁾	52 weeks ended April 1, 2012 after giving effect to the issuance of the Debentures and the use of proceeds of the Offering ⁽²⁾
Interest requirements on all debt (in thousands of US\$) ⁽¹⁾	\$38,671	\$29,251
Earnings before interest expense and taxes (in thousands of US\$)	\$68,654	\$64,871
Earnings Coverage Ratio	1.78	2.22

Notes:

- ⁽¹⁾ The interest requirements on all debt has been adjusted to give effect to: (a) the anticipated redemption (or otherwise repurchase) in full of the outstanding Subordinated Notes held by third parties; and (b) the issuance of US\$65,000,000 aggregate principal amount of Debentures under the Offering.
- ⁽²⁾ Earnings coverage ratio is equal to net income before interest expense and taxes divided by interest expense on all debt. The ratio has been calculated after giving effect to: (a) the anticipated redemption (or otherwise repurchase) in full of the outstanding Subordinated Notes held by third parties; and (b) the issuance of US\$65,000,000 aggregate principal amount of Debentures under the Offering.

USE OF PROCEEDS

The gross proceeds to NFI from the sale of the Debentures hereunder will be US\$65,000,000 (US\$74,750,000 if the Over-Allotment Option is exercised in full). The net proceeds from the sale of the Debentures are estimated to be approximately US\$61,569,975 (US\$70,929,975 if the Over-Allotment Option is exercised in full) after deducting the Underwriters’ Fee and the estimated expenses of the Offering (converted into U.S. dollars based on the Bank of Canada noon rate of exchange of 0.9765 U.S. dollars per Canadian dollar on May 28, 2012).

The net proceeds from the Offering will be used to redeem (or otherwise repurchase) in full the outstanding C\$58,821,510.62 aggregate principal amount of Subordinated Notes (plus the applicable premium and accrued interest amounts) held by third parties and the balance will be used for general corporate purposes. During the period between closing of the Offering and the redemption of the Subordinated Notes, NFI intends to invest substantially all of the net proceeds of the Offering in bank deposits or short term securities.

NFI ULC intends to provide the requisite notice of redemption to the trustee for the Subordinated Notes and the holders of the Subordinated Notes following closing of the Offering, with redemption expected to occur on or about August 20, 2012. Following the redemption of the Subordinated Notes, NFI intends to apply to de-list the income deposit securities of NFI and NFI ULC (“IDSs”) (which currently consist of one Common Share and C\$55.30 principal amount of Subordinated Notes per IDS) from the TSX and, following such de-listing, the Common Shares forming part of an IDS will commence trading separately and continue to be listed on the TSX under the trading symbol “NFI”.

DIVIDEND POLICY

NFI currently pays annual dividends of C\$0.86 per Common Share (C\$0.07167 per Common Share per month). The board of directors of NFI expects to maintain the current dividend until no later than August 2012, the month during which NFI ULC has the first option to redeem the Subordinated Notes, although such distributions are not assured.

For dividends to be paid after August 2012, NFI currently anticipates establishing an annualized dividend equal to approximately 50% of the previous annual distribution level of C\$1.17 per IDS. This dividend policy reflects a shift from the previous distribution policy, pursuant to which substantially all of the Company’s available cash flow was distributed to IDS holders. The board of directors of NFI believes adoption of this new dividend policy is consistent with the Company’s long-

term financial performance and the need to retain cash flows to support the ongoing requirements of the business and to provide the financial flexibility to pursue strategic growth and diversification opportunities.

The dividends on the Common Shares (including those represented by IDSs) will be paid if and to the extent dividends are declared by the board of directors of NFI and permitted by applicable law. Dividend payments are not mandatory or guaranteed. The board of directors of NFI may, in its discretion, modify or repeal NFI's current dividend policy at any time and without prior notice. No assurances can be made that NFI will pay dividends at the level contemplated by its current dividend policy in the future, or at all.

DESCRIPTION OF THE DEBENTURES

The following is a summary of the material attributes and characteristics of the Debentures. This summary does not purport to be complete and is subject to, and qualified in its entirety by, reference to the terms of the Indenture (as defined below) between NFI and the Debenture Trustee. When used in this short form prospectus, the following terms have the respective meanings set forth below:

“Change of Control” means (i) the acquisition by any person, or group of persons acting jointly or in concert, of voting control or direction over an aggregate of 66 $\frac{2}{3}$ % or more of the outstanding Common Shares, or (ii) the sale or other transfer of all or substantially all of the assets of NFI on a consolidated basis; but a “Change of Control” shall not include a sale, merger, reorganization, arrangement, combination or other similar transaction if the holders of Common Shares immediately prior to the completion of the transaction hold or have direction over at least 50% of the voting control or direction in such merged, reorganized, arranged, combined or other continuing entity (and in the case of a sale of all or substantially all of the assets, in the entity which has acquired such assets) immediately following the completion of such transaction.

“Current Market Price” means the arithmetic average of the U.S. dollar equivalent of the daily volume weighted average price of the Common Shares on the TSX (or other applicable stock exchange) for the 20 consecutive trading days ending on the applicable date; the U.S. dollar equivalent for each trading day will be calculated as the volume weighted average trading price of the Common Shares on the TSX (or other applicable stock exchange) for such date multiplied by the applicable noon rate of exchange as reported by the Bank of Canada for such date.

“Debentures” means debentures issued under the Indenture, as the same may be amended or supplemented from time to time;

“Definitive Debentures” means Debentures in registered and definitive form;

“Extraordinary Resolution” means a resolution passed at a meeting of the holders of Debentures by votes cast thereat by holders of not less than 66 $\frac{2}{3}$ % of the principal amount of the then outstanding Debentures present at the meeting or represented by proxy, or rendered by instruments in writing signed by the holders of not less than 66 $\frac{2}{3}$ % of the principal amount of the then outstanding Debentures;

“Global Debentures” means fully-registered global Debentures;

“Interest Obligation” means NFI's obligation to pay interest on the Debentures;

“Interest Payment Date” means the date that the Interest Obligation is payable under the Indenture;

“Offer Price” means a price equal to 100% of the principal amount of the Debentures plus all accrued and unpaid interest thereon up to, but excluding, the date of purchase; and

“Redemption Price” means the principal amount of the Debentures.

General

The Debentures will be issued under a trust indenture to be dated as of the closing of the Offering (the **“Indenture”**), between NFI and Computershare Trust Company of Canada, as trustee (the **“Debenture Trustee”**). The maximum aggregate principal amount of debentures authorized to be issued under the Indenture will be US\$74,750,000. The Debentures will be designated as “6.25% Convertible Unsecured Subordinated Debentures due June 30, 2017”.

The Debentures will be dated as of the closing of the Offering and will be issuable only in denominations of US\$1,000 and integral multiples thereof. At the closing of the Offering, the Debentures will be available for delivery in book-entry only form through the facilities of CDS. Holders of beneficial interests in the Debentures will not have the right to receive physical certificates evidencing their ownership of Debentures except under certain circumstances described under “— Book-Entry Only System”. No fractional Debentures will be issued.

The Debentures will bear interest from the date of issue at 6.25% per annum, which will be payable in semi-annual payments in arrears on June 30 and December 31 in each year, commencing on December 31, 2012. The first interest payment on the Debentures will include accrued and unpaid interest for the period from the closing of the Offering to, but excluding, December 31, 2012.

The principal amount of the Debentures will be payable in lawful money of the United States or, at the option of NFI and subject to applicable regulatory approval, by delivery of freely-tradeable Common Shares to satisfy, in whole or in part, the obligations of NFI to repay the principal amount of the Debentures as further described under “— Payment Upon Redemption or Maturity”, “— Redemption and Purchase” and “— Change of Control”. The interest on the Debentures will be payable in lawful money of the United States including, at the option of NFI and subject to applicable regulatory approval, by delivering sufficient freely-tradeable Common Shares to the Debenture Trustee to sell for cash proceeds to satisfy the Interest Obligation in accordance with the Indenture as described under “— Interest Payment Election”.

The Debentures will be direct obligations of NFI and will not be secured by any mortgage, pledge, hypothec or other charge and will be subordinated to other liabilities of NFI as described under “— Rank and Subordination”. The Indenture will not restrict NFI or its subsidiaries from incurring additional indebtedness for borrowed money or from mortgaging, pledging or charging their real and personal property to secure any indebtedness.

The Debentures will be transferable and may be presented for conversion at the principal offices of the Debenture Trustee in Toronto, Ontario.

Conversion Privilege

The Debentures will be convertible at the holder’s option into fully-paid, non-assessable and freely-tradeable Common Shares at any time prior to the close of business on the earliest of (i) the business day immediately preceding the Maturity Date; (ii) if called for redemption, the business day immediately preceding the date specified by NFI for redemption of the Debentures; or (iii) if called for repurchase pursuant to a Change of Control, the business day immediately preceding the payment date, at the Conversion Price. The Conversion Price is subject to adjustment in certain circumstances to be set out in the Indenture. See “— Anti-Dilution Provisions”. Holders converting their Debentures will receive all accrued and unpaid interest to, but excluding, the date of conversion. Holders converting their Debentures shall become holders of record of Common Shares on the business day immediately after the conversion date.

No fractional Common Shares will be issued on any conversion of Debentures but, in lieu thereof, NFI shall satisfy fractional interests by a cash payment equal to the Current Market Price of such fractional interest.

Redemption and Purchase

The Debentures will not be redeemable before June 30, 2015, except in the event of the satisfaction of certain conditions after a Change of Control has occurred as described below under “— Change of Control”. On and after June 30, 2015 and prior to the Maturity Date, the Debentures will be redeemable, in whole or in part from time to time, at the option of NFI on not more than 60 days’ and not less than 30 days’ prior written notice at a price equal to the principal amount of the Debentures plus accrued and unpaid interest to, but excluding, the date of redemption, provided that the Current Market Price on the date on which notice of redemption is given is not less than 125% of the Conversion Price.

In the case of redemption of less than all of the Debentures, the Debentures to be redeemed will be selected by the Debenture Trustee on a pro rata basis or in such other manner as the Debenture Trustee deems equitable.

NFI will have the right to purchase Debentures in the market, by tender or by private contract, subject to regulatory requirements, provided, however, that if an Event of Default has occurred and is continuing, NFI will not have the right to purchase Debentures by private contract.

Payment upon Redemption or Maturity

On redemption or at the Maturity Date, NFI will repay the indebtedness represented by the Debentures by paying to the Debenture Trustee in lawful money of the United States an amount equal to the aggregate Redemption Price of the outstanding Debentures which are to be redeemed or the principal amount of the outstanding Debentures which have matured, together with accrued and unpaid interest thereon to, but excluding, the redemption date or Maturity Date, as the case may be. NFI may, at its option, on not more than 60 and not less than 40 days' prior notice and subject to applicable regulatory approval and provided that no Event of Default has occurred and is continuing and certain other conditions are satisfied, elect to satisfy its obligation to pay, in whole or in part, the Redemption Price of the Debentures which are to be redeemed or the principal amount of the Debentures which are due on the Maturity Date, as the case may be, by issuing freely-tradeable Common Shares to the holders of the Debentures. The number of Common Shares to be issued will be determined by dividing the aggregate principal amount of the outstanding Debentures which are to be redeemed or the principal amount of the outstanding Debentures which have matured, as the case may be, by 95% of the Current Market Price on the fifth trading day preceding the date fixed for redemption or the Maturity Date, as the case may be. No fractional Common Shares will be issued on redemption or maturity but, in lieu thereof, NFI shall satisfy fractional interests by a cash payment equal to the Current Market Price of such fractional interest.

Change of Control

Within 30 days following the occurrence of a Change of Control, NFI will be required to make an Offer to Purchase the Debentures for the Offer Price. Holders of Debentures may accept this offer in whole or in part.

If holders of 90% or more in aggregate principal amount of the Debentures outstanding on the date NFI delivers the Offer to Purchase to the Debenture Trustee accept the Offer to Purchase, NFI will have the right to redeem all the remaining Debentures on such date at the Offer Price. Notice of such redemption must be given to the Debenture Trustee within 10 days following the date of purchase, and promptly thereafter, by the Debenture Trustee to the holders of the Debentures not tendered pursuant to the Offer to Purchase.

NFI will comply with the requirements of Canadian securities laws and regulations to the extent such laws and regulations are applicable in connection with the repurchase of the Debentures in the event of a Change of Control.

Cash Change of Control

If a Change of Control occurs in which 10% or more of the consideration for the Common Shares in the transaction or transactions constituting a Change of Control consists of:

(a) cash;

(b) equity securities, including trust units, limited partnership units or other participating securities of a trust, limited partnership or similar entity, that are not traded or intended to be traded immediately following such transactions on a recognized stock exchange; or

(c) other property that is not traded or intended to be traded immediately following such transactions on a recognized stock exchange

(either (a), (b) or (c), a "**Cash Change of Control**"), then, subject to regulatory approval, during the period beginning 10 trading days before the anticipated date on which the Cash Change of Control becomes effective (the "**Effective Date**") and ending 30 days after NFI delivers notice to the Debenture Trustee of the occurrence of a Cash Change of Control, holders of Debentures will be entitled to convert their Debentures and receive, subject to and following completion of the Cash Change of Control, in addition to the number of Common Shares they would otherwise be entitled to receive as set forth under "**— Conversion Privilege**" above, an additional number of Common Shares per US\$1,000 principal amount of Debentures as set forth below (the "**Make-Whole Premium**").

The number of additional Common Shares per US\$1,000 principal amount of Debentures constituting the relevant Make-Whole Premium will be determined by reference to the table below and is based on the Effective Date and the U.S. dollar equivalent of the price (the "**Change of Control Offer Price**") paid per Common Share in the transaction constituting the Cash Change of Control. If holders of Common Shares receive (or are entitled and able in all circumstances to receive), only cash in the transaction, the Change of Control Offer Price will be the cash amount paid per Common Share. Otherwise,

the Change of Control Offer Price will be equal to the Current Market Price of the Common Shares immediately preceding the Effective Date of such transaction.

The following table shows what the Make-Whole Premium would be for each hypothetical Change of Control Offer Price and Effective Date set out below, expressed as additional Common Shares per US\$1,000 principal amount of Debentures. For greater certainty, NFI will not be obliged to pay the Make-Whole Premium other than by issuance of Common Shares upon conversion, subject to the provisions relating to adjustment of the Conversion Price described under “Description of the Debentures – Conversion Privilege” above.

**Make-Whole Premium Upon Cash Change of Control
(Number of Additional Common Shares per US\$1,000 Debentures)**

Change of Control Offer Price (US\$)	Effective Date of Cash Change of Control					
	June 5, 2012	June 30, 2013	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017
7.11	40.647	40.921	40.647	40.647	40.647	40.647
7.50	34.879	35.113	34.180	33.598	33.333	33.333
8.00	28.681	28.790	27.770	27.011	25.363	25.000
8.50	23.528	23.566	22.482	21.623	19.657	17.647
9.00	19.232	19.166	18.097	17.095	14.948	11.111
9.50	15.693	15.585	14.444	13.374	11.248	5.263
10.00	12.706	12.558	11.476	10.302	8.201	-
10.50	10.211	10.052	8.960	7.763	5.877	-
11.00	8.126	7.949	6.887	5.584	3.989	-
12.00	4.966	4.796	3.813	2.380	1.465	-
13.00	2.864	2.759	1.950	0.448	0.224	-
15.00	0.573	0.599	0.225	-	-	-
16.00	0.092	0.126	-	-	-	-

The actual Change of Control Offer Price and Effective Date may not be set out in the table, in which case:

- (a) if the actual Change of Control Offer Price on the Effective Date is between two Change of Control Offer Prices in the table and/or the actual Effective Date is between two Effective Dates in the table, the Make-Whole Premium will be determined by a straightline interpolation between the Make-Whole Premiums set out for the two Change of Control Offer Prices and the two Effective Dates in the table based on a 365-day year, as applicable;
- (b) if the Change of Control Offer Price on the Effective Date exceeds US\$16.00 per Common Share, subject to adjustment as described below, the Make-Whole Premium will be zero; and
- (c) if the Change of Control Offer Price on the Effective Date is less than US\$7.11 per Common Share, subject to adjustment as described below, the Make-Whole Premium will be zero.

The Change of Control Offer Prices set out in the table above will be adjusted as of any date on which the Conversion Price of the Debentures is adjusted. The adjusted Change of Control Offer Prices will equal the Change of Control Offer Prices applicable immediately prior to such adjustment multiplied by a fraction, the numerator of which is the Conversion Price as so adjusted and the denominator of which is the Conversion Price immediately prior to the adjustment giving rise to the Change of Control Offer Price adjustment. The number of additional Common Shares set out in the table above will be adjusted in the same manner as the Conversion Price as set out below under “Description of the Debentures – Anti-Dilution Provisions”, other than by operation of an adjustment to the Conversion Price by adding the Make-Whole Premium as described above.

Interest Payment Election

Unless an Event of Default has occurred and is continuing, NFI may elect, at any time and from time to time, subject to applicable regulatory approval to satisfy all or part of the Interest Obligation on an Interest Payment Date, (i) in cash; (ii)

by delivering Common Shares to the Debenture Trustee, for sale, to satisfy the interest obligations in accordance with the Indenture in which event, holders of the Debentures will be entitled to receive a cash payment equal to the interest payable from the proceeds of the sale of such Common Shares; or (iii) any combination of (i) and (ii) above. The Indenture will provide that, upon such election, the Debenture Trustee shall: (i) receive delivery of Common Shares from NFI; (ii) accept bids with respect to, and facilitate settlement of sales of, such Common Shares, each as NFI shall direct in its absolute discretion, through the investment banks, brokers or dealers identified by NFI in the notice to elect to satisfy all or any part of the Interest Obligation by delivering Common Shares to the Debenture Trustee; (iii) settle trades of Common Shares in the open market on a Recognized Stock Exchange (to be defined in the Indenture); (iv) invest the proceeds of such sales on direction of NFI in short-term permitted government securities (to be defined in the Indenture) which mature prior to the applicable Interest Payment Date, and use the proceeds received from such permitted government securities, together with any proceeds from the sale of Common Shares not invested as aforesaid, to satisfy the Interest Obligation; and (v) subject to the prior consent of NFI, perform any other action necessarily incidental thereto.

Neither NFI's making of an election to satisfy all or part of the Interest Obligation on an Interest Payment Date by delivering sufficient Common Shares to the Debenture Trustee, nor the facilitation of settlement of Common Shares will: (i) result in the holders of the Debentures not being entitled to receive on the applicable Interest Payment Date cash in an aggregate amount equal to the interest payable on such Interest Payment Date; or (ii) entitle such holders to receive any Common Shares in satisfaction of the Interest Obligation.

Anti-Dilution Provisions

Subject to the provisions thereof, the Indenture will provide for the adjustment of the Conversion Price in certain events including: (i) the subdivision or consolidation of the outstanding Common Shares; (ii) the issuance of Common Shares or securities convertible into or exchangeable for Common Shares to all or substantially all holders of Common Shares by way of a dividend or distribution or otherwise; (iii) the issuance of options, rights or warrants to all or substantially all holders of Common Shares entitling them to acquire Common Shares or other securities convertible into or exchangeable for Common Shares at less than 95% of the then Current Market Price of the Common Shares; (iv) the distribution to all or substantially all holders of Common Shares of certain other securities or assets; (v) the payment to holders of Common Shares of cash or any other consideration in respect of an issuer bid for Common Shares of NFI if the cash and fair market value of any other consideration included in the payment per Common Share exceeds the Current Market Price of the Common Shares on the date of expiry of such issuer bid; and (vi) the payment of a cash dividend or distribution to all the holders of Common Shares in excess of C\$0.07167 per Common Share per month until August 2012 or in excess of C\$0.06 per Common Share per month thereafter (or the issuance of securities of NFI in lieu thereof in certain circumstances). There will be no adjustment of the Conversion Price in respect of any event described in (ii), (iii), (iv), (v) or (vi) above if the holders of the Debentures are allowed to participate as though they had converted their Debentures prior to the applicable record date or effective date. No adjustment will be made to the Conversion Price upon the issuance from time to time of Common Shares pursuant to NFI's existing or future stock option plan, long term incentive plan, deferred share unit plan, share purchase plan or any dividend reinvestment plan, or any similar plan, if any, as such plans may be amended or replaced from time to time. NFI will not be required to make adjustments in the Conversion Price unless the cumulative effect of such adjustments would change the Conversion Price by at least 1%.

In the case of any reclassification or capital reorganization (other than a change resulting from consolidation or subdivision) of the Common Shares or in the case of any consolidation, amalgamation, arrangement or merger of NFI with or into any other entity, or in the case of any sale or conveyance of the properties and assets of NFI as, or substantially as, an entirety to any other entity as a result of which the holders of Common Shares are entitled to receive shares, other securities or other property, or a liquidation, dissolution or winding-up of NFI, the terms of the conversion privilege shall be adjusted so that each holder of a Debenture shall, after such reclassification, capital reorganization, consolidation, amalgamation, merger, sale, conveyance, liquidation, dissolution or winding-up, be entitled to receive and shall accept in lieu of Common Shares, the kind and amount of securities or property which the holder thereof would have been entitled to receive if, on the effective date thereof, it had been the holder of the number of Common Shares into which the Debenture was convertible on the effective date of such reclassification, capital reorganization, consolidation, amalgamation, arrangement, merger, sale, conveyance, liquidation, dissolution or winding-up ("**Substitute Property**"). Following any such reclassification, capital reorganization, consolidation, amalgamation, merger, sale, conveyance, liquidation, dissolution or winding-up, any reference to "Common Shares" under the headings "— Payment Upon Redemption or Maturity", "— Change of Control" or "— Interest Payment Election" shall be deemed to be a reference to Substitute Property.

Notwithstanding the foregoing, if holders of Debentures would otherwise be entitled to receive, upon conversion of the Debentures, any Substitute Property that would not constitute "prescribed securities" for the purposes of clause 212(1)(b)(vii)(E) of the Tax Act as it applied on December 31, 2007 ("**ineligible consideration**"), such holders shall not be

entitled to receive such ineligible consideration but NFI or the successor or acquirer, as the case may be, shall have the right (at the sole option of NFI or the successor or acquirer, as the case may be) to deliver either such ineligible consideration or “prescribed securities” for the purposes of clause 212(1)(b)(vii)(E) of the Tax Act as it applied on December 31, 2007 with a market value (as conclusively determined by the board of directors of NFI) equal to the market value of such ineligible consideration. In general, prescribed securities would include the Common Shares and other shares which are not redeemable by the holder within five years of the date of issuance of the Debentures. Because of this, certain transactions may result in the Debentures being convertible into prescribed securities that are highly illiquid. This could have a material adverse effect on the value of the Debentures.

Subject to compliance with the terms of the Indenture and applicable law, no consent of holders of the Debentures will be required in connection with a reclassification, capital reorganization, consolidation, amalgamation, arrangement, merger, sale, conveyance, liquidation, dissolution or winding-up of NFI and the holders of the Debentures will have no voting or other approval rights with respect to any such transaction.

Cancellation

All Debentures converted, redeemed or purchased as aforesaid will be cancelled and may not be reissued or resold.

Rank and Subordination

The Debentures will be direct, subordinated, unsecured obligations of NFI and will rank equally with one another and subordinate to all other existing and future senior secured and senior unsecured indebtedness of NFI, including all trade creditors, and will rank *pari passu* to all future subordinated unsecured indebtedness of NFI. The Indenture setting out the terms of the Debentures will not restrict NFI or its subsidiaries from incurring additional indebtedness or from mortgaging, pledging or charging its properties to secure any indebtedness or liabilities.

The payment of the principal of, premium, if any, and interest on, the Debentures will be subordinated in right of payment in the circumstances referred to below and more particularly, to be set forth in the Indenture, to the prior payment in full of all Senior Indebtedness. “**Senior Indebtedness**” of NFI will be defined in the Indenture as the principal of and premium, if any, and interest on and other amounts payable in respect of all indebtedness (including any indebtedness to trade creditors) of NFI (whether outstanding as at the date of the Indenture or thereafter created, incurred, assumed or guaranteed), other than all other existing and future instruments of NFI which, by the terms of the instrument creating or evidencing such indebtedness, is expressed to be not superior in right of payment to, the Debentures.

The Indenture will provide that in the event of any dissolution, winding-up, liquidation, bankruptcy, insolvency, receivership, creditor enforcement or realization or other similar proceedings relating to NFI or any of its property, or any marshalling of the assets and liabilities of NFI, then holders of Senior Indebtedness will receive payment in full before the holders of Debentures will be entitled to receive any payment or distribution of any kind or character, whether in cash, property or securities, which may be payable or deliverable in any such event in respect of any of the Debentures or any unpaid interest accrued thereon. The Indenture also will provide that NFI will not make any payment, and the holders of the Debentures will not be entitled to demand, accelerate, institute proceedings for the collection of, or receive any payment or benefit (including without any limitation by set-off, combination of accounts or otherwise in any manner whatsoever) on account of the Debentures if a default or event of default with respect to or under any Senior Indebtedness permitting acceleration of the same has occurred and is continuing.

The Debentures will also be effectively subordinate to claims of creditors (including trade creditors) of NFI’s subsidiaries except to the extent NFI is a creditor of such subsidiaries ranking at least *pari passu* with such creditors of NFI’s subsidiaries.

Modification

The rights of the holders of the Debentures may be modified in accordance with the terms of the Indenture. For that purpose, among others, the Indenture will contain certain provisions which will make Extraordinary Resolutions binding on all holders of Debentures. Under the Indenture, the Debenture Trustee will have the right to make certain amendments to the Indenture in its discretion, without the consent of the holders of Debentures.

Events of Default

The Indenture provides that an Event of Default in respect of the Debentures will occur if any one or more of the following described events has occurred with respect to the Debentures: (i) failure for 30 days to pay interest on the Debentures when due; (ii) failure to pay the principal or premium, if any, on the Debentures when due, whether at the Maturity Date, upon redemption, by declaration or otherwise; (iii) material default in performing or observing any of the other covenants, agreements or obligations of NFI to be described in the Indenture; and (iv) certain events of bankruptcy, insolvency or reorganization of NFI under bankruptcy or insolvency laws. If an Event of Default has occurred and is continuing, the Debenture Trustee may, in its discretion, and shall, upon request of holders of not less than 25% in principal amount of the Debentures then outstanding under the Indenture, declare the principal amount of, premium, if any, and interest on all Debentures then outstanding under the Indenture to be immediately due and payable. Certain Events of Default may be waived by written direction of the holders of at least 50% of the principal amount of the outstanding Debentures, by Extraordinary Resolution or by the Debenture Trustee in certain circumstances in accordance with the terms of the Indenture.

No holder of Debentures will have any right to pursue any remedy (including any action, suit or proceeding authorized or permitted by the Indenture or pursuant to applicable law) with respect to the Indenture or the Debentures unless (i) the holder gives to the Debenture Trustee notice of a continuing Event of Default; (ii) the holders holding at least 25% in principal amount of outstanding Debentures make a request in writing to the Debenture Trustee to pursue the remedy; (iii) such holder or holders offer or provide to the Debenture Trustee security and indemnity in form satisfactory to the Debenture Trustee against any loss, liability or expense; (iv) the Debenture Trustee does not comply with the request within 30 days after receipt of such request and indemnity; and (v) during such 30 day period the holders holding a majority in principal amount of outstanding Debentures do not give the Debenture Trustee any direction inconsistent with the request.

Compulsory Acquisition of Debentures

The Indenture will contain provisions to the effect that if an offer is made for all the Debentures other than Debentures held by or on behalf of the offeror or an affiliate or associate of the offeror and not less than 90% of the Debentures (other than Debentures held by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Debentures held by the holders of Debentures who did not accept the offer on the terms offered by the offeror.

Book-Entry System

Debentures will be issued in the form of Global Debentures held by, or on behalf of, CDS as custodian for its participants. All Debentures will be represented in the form of Global Debentures registered in the name of CDS or its nominee. Purchasers of Debentures represented by Global Debentures will not receive Debentures in definitive form. Rather, the Debentures will be represented only in “book-entry only” form (unless NFI, in its sole discretion, elects to prepare and deliver Definitive Debentures). Beneficial interests in the Global Debentures, constituting ownership of the Debentures, will be represented through book-entry accounts of institutions (including the Underwriters) acting on behalf of beneficial owners, as direct and indirect participants of CDS. Each purchaser of a Debenture represented by a Global Debenture will receive a customer confirmation of purchase from the Underwriter or Underwriters from whom the Debenture is purchased in accordance with the practices and procedures of the selling Underwriter or Underwriters. The practices of the Underwriters may vary but generally customer confirmations are issued promptly after execution of a customer order. CDS will be responsible for establishing and maintaining book-entry accounts for its participants having interests in Global Debentures.

All interests in the Debentures will be subject to the operations and procedures of CDS. The operations and procedures of each settlement system may be changed at any time. NFI is not responsible for those operations and procedures.

If: (i) NFI is required to do so by law; (ii) the “book-entry only” system ceases to exist; (iii) CDS notifies NFI that it is unwilling or unable to continue as depository in connection with the Global Debentures; (iv) at any time CDS ceases to be a clearing agency or otherwise ceases to be eligible to be a depository and NFI is unable to locate a qualified successor; (v) NFI elects, in its sole discretion, to terminate the book-entry only system for the Debentures; or (vi) in certain circumstances where an Event of Default has occurred, beneficial owners of Debentures represented by Global Debentures at such time will receive Definitive Debentures.

Neither NFI nor the Debenture Trustee nor the Underwriters will have any responsibility or obligation to participants, or the persons for whom they act as nominees, with respect to (i) the accuracy of the records of CDS, its

nominee, or any participant, regarding any ownership interest in the securities; or (ii) any payments, or the providing of notice, to participants or beneficial owners.

Transfer and Exchange of Debentures

Transfers of beneficial ownership in Debentures represented by Global Debentures will be effected through records maintained by CDS for such Global Debentures or its nominees (with respect to interests of participants) and on the records of participants (with respect to interests of persons other than participants). Unless NFI elects, in its sole discretion, to prepare and deliver Definitive Debentures, beneficial owners who are not participants in CDS's book-entry system, but who desire to purchase, sell or otherwise transfer ownership of or other interest in Global Debentures, may do so only through participants in CDS's book-entry system.

The ability of a beneficial owner of an interest in a Debenture represented by a Global Debenture to pledge the Debenture or otherwise take action with respect to such owner's interest in a Debenture represented by a Global Debenture (other than through a participant) may be limited due to the lack of a physical certificate.

If Definitive Debentures are used instead of or in place of Global Debentures, registered holders of Definitive Debentures may transfer such Debentures upon payment of taxes or other charges incidental thereto, if any, by executing and delivering a form of transfer together with the Debentures to the registrar for the Debentures at its principal offices in Toronto, Ontario or such other city or cities as may from time to time be designated by NFI whereupon new Debentures will be issued in authorized denominations in the same aggregate principal amount as the Debentures so transferred, registered in the names of the transferees.

Payments

Payments of interest and principal on each Global Debenture will be made to CDS or its nominee, as the case may be, as the registered holder of the Global Debenture. As long as CDS or its nominee is the registered owner of a Global Debenture, CDS or its nominee, as the case may be, will be considered the sole legal owner of the Global Debenture for the purposes of receiving payments of interest and principal on the Debentures and for all other purposes under the Indenture and the Debentures. Interest payments on Global Debentures will be made by electronic funds transfer or other means acceptable to the Debenture Trustee prior to the day interest is payable and will be delivered to CDS or its nominee, as the case may be.

NFI understands that CDS or its nominee, upon receipt of any payment of interest or principal in respect of a Global Debenture, will credit participants' accounts, on the date interest or principal is payable, with payments in amounts proportionate to their respective beneficial interest in the principal amount of such Global Debenture as shown on the records of CDS or its nominee. NFI also understands that payments of interest and principal by participants to the owners of beneficial interests in such Global Debenture held through such participants will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such participants. NFI's responsibility and liability in respect of payments on Debentures represented by the Global Debenture is limited solely and exclusively, while the Debentures are registered in Global Debenture form, to making payment of any interest and principal due on such Global Debenture to CDS or its nominee.

If Definitive Debentures are issued instead of or in place of Global Debentures, payments of interest on each Definitive Debenture will be made by electronic funds transfer, cheque or other means acceptable to the Debenture Trustee at least three business days (a business day for this purpose being a day, other than a Saturday, Sunday or statutory holiday, on which Canadian chartered banks are open for business in Toronto, Ontario) preceding the applicable Interest Payment Date. The Debenture Trustee will forward such payments to the address of the holders appearing in the register maintained by the registrar for the Debentures at the close of business on the seventh business day prior to the Interest Payment Date. Payment of principal at maturity will be made at the principal office of the Debenture Trustee in the City of Toronto, Ontario (or in such other city or cities as may from time to time be designated by NFI) against surrender of the Definitive Debentures, if any. If the due date for payment of any amount of principal or interest on any Definitive Debenture is not, at the place of payment, a business day such payment will be made on the next business day and the holder of such Definitive Debenture shall not be entitled to any further interest or other payment in respect of such delay.

NFI or the Debenture Trustee will make any withholdings or deductions from all payments on the Debentures in respect of taxes required by law or by the interpretation or administration thereof and will remit the full amount withheld or deducted to the relevant taxing authority in accordance with applicable law.

Governing Law

Each of the Indenture and the Debentures will be governed by, and construed in accordance with, the laws of the Province of Ontario and the laws of Canada applicable therein.

DESCRIPTION OF THE COMMON SHARES

The authorized share capital of NFI consists of an unlimited number of Common Shares. As of the date hereof, there are 44,379,070 Common Shares issued and outstanding.

Voting

Each Common Share carries one vote on all matters to be voted on at all meetings of shareholders.

Dividends

The holders of the Common Shares are entitled to receive dividends, if, as and when declared by the board of directors out of the moneys of NFI properly applicable to the payment of dividends, in such amount and in such form as the board of directors may from time to time determine, and all dividends which the board of directors may declare on the Common Shares are declared and paid in equal amounts per share on all Common Shares at the time outstanding.

Liquidation

In the event of the dissolution, liquidation or winding-up of NFI, whether voluntary or involuntary, or any other distribution of assets of NFI among its shareholders for the purpose of winding-up its affairs, the holders of the Common Shares are entitled to receive the remaining property and assets of NFI.

PLAN OF DISTRIBUTION

Under an agreement dated May 22, 2012 between NFI and the Underwriters (the “**Underwriting Agreement**”), NFI has agreed to issue and sell an aggregate of US\$65,000,000 principal amount of Debentures to the Underwriters, and the Underwriters have severally (and not jointly or jointly and severally) agreed to purchase from NFI, as principals, such Debentures on or about June 5, 2012, or on such other date as may be agreed among the parties to the Underwriting Agreement. Delivery of the Debentures is conditional upon payment on closing of US\$1,000 per Debenture for total consideration of US\$65,000,000 payable to NFI against the delivery of the Debentures. The Underwriting Agreement provides that NFI will pay or cause to be paid to the Underwriters a fee of US\$2,600,000 (US\$40 per US\$1,000 principal amount of Debentures) in consideration of their services in connection with the Offering. The Underwriter’s Fee is payable at the closing of the Offering.

The obligations of the Underwriters under the Underwriting Agreement are several (and not joint or joint and several) and may be terminated at their discretion on the occurrence of certain stated events. If an Underwriter fails to purchase the Debentures that it has agreed to purchase and the aggregate principal amount of such Debentures is equal to not more than 10% of the aggregate principal amount of all Debentures to be purchased by the Underwriters, the other Underwriters are obligated to purchase such Debentures. If an Underwriter fails to purchase the Debentures which it has agreed to purchase and the aggregate principal amount of such Debentures is equal to more than 10% of the aggregate principal amount of all Debentures to be purchased by the Underwriters, the other Underwriters may, but are not obligated to, purchase such Debentures. The Underwriters are, however, obligated to take up and pay for all of the Debentures if any are purchased under the Underwriting Agreement. The Underwriting Agreement also provides that NFI will indemnify the Underwriters and their respective affiliates and their respective directors, officers, employees, shareholders, partners and agents against certain liabilities and expenses.

NFI has granted to the Underwriters the Over-Allotment Option, exercisable in whole or in part at any time until 30 days following closing of the Offering to purchase up to an additional principal amount of US\$9,750,000 of Debentures on the same terms as set out above solely to cover over-allotments, if any. NFI has agreed to pay to the Underwriters a fee of US\$40 per US\$1,000 principal amount of Debentures with respect to Debentures issued under the Over-Allotment Option. This prospectus qualifies the grant of the Over-Allotment Option and the issuance of Debentures on the exercise of the Over-Allotment Option.

The Underwriters propose to offer the Debentures initially at the offering price specified on the cover page of this short form prospectus. The offering price was established by negotiation between NFI and BMO Nesbitt Burns Inc. and CIBC World Markets Inc., on their own behalf and on behalf of the other Underwriters. After the Underwriters have made a reasonable effort to sell all of the Debentures at the price specified on the cover page, the offering price may be decreased and may be further changed from time to time to an amount not greater than that set out on the cover page, and the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by the purchasers of the Debentures is less than the amount paid by the Underwriters to NFI.

NFI has agreed that it will not, directly or indirectly, sell, agree or offer to sell, grant any option for the sale of or otherwise dispose of Common Shares, or announce any intention to do any of the foregoing without the prior written consent of BMO Nesbitt Burns Inc. and CIBC World Markets Inc., such consent not to be unreasonably withheld, for a period of 90 days after the closing of the Offering, except for the purposes of granting employee, consultant and director or trustee compensation and incentives pursuant to any incentive compensation arrangements of NFI existing on the date of the Underwriting Agreement.

There is currently no market through which the Debentures may be sold and purchasers may not be able to resell the Debentures purchased under this short form prospectus. The TSX has conditionally approved the listing of the Debentures (including the Debentures issuable pursuant to the Over-Allotment Option) and the Common Shares issuable upon the conversion of the Debentures (including the Common Shares issuable on a conversion premium in the event of a Cash Change of Control). Listing is subject to NFI fulfilling all of the requirements of the TSX on or before August 20, 2012.

Pursuant to the policy statements or rules of certain securities regulators, the Underwriters may not, throughout the period of distribution, bid for or purchase Debentures other than pursuant to the Underwriting Agreement. The foregoing restriction is subject to exceptions, including: (i) a bid or purchase permitted under Universal Market Integrity Rules; and (ii) a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution, provided that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Debentures. NFI has been advised that in connection with the Offering and pursuant to the first-mentioned exception, the Underwriters may effect transactions which stabilize or maintain the market price of the Debentures at levels other than those which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

Neither the Debentures nor the Common Shares issuable upon conversion, redemption or repayment at maturity of the Debentures (collectively, the “**Subject Securities**”), if any, have been or will be registered under the U.S. Securities Act or the securities laws of any state of the United States. Accordingly, the Subject Securities may not be offered, sold or delivered, directly or indirectly, within the United States, except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws.

In addition, until 40 days after the commencement of this Offering, any offer or sale of the Debentures in the United States by any dealer (whether or not participating in this Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with an exemption from the registration requirements of the U.S. Securities Act.

RELATIONSHIP BETWEEN NFI AND CERTAIN UNDERWRITERS

BMO Nesbitt Burns Inc., CIBC World Markets Inc., National Bank Financial Inc., TD Securities Inc. and Scotia Capital Inc. are affiliates of Canadian chartered banks who are lenders under the Second Amended and Restated Credit Agreement made as of July 26, 2011, as amended on December 21, 2011, between certain subsidiaries of NFI, certain lenders thereto, and a Canadian chartered bank affiliate of Scotia Capital Inc., as Administrative Agent and a Canadian chartered bank affiliate of BMO Nesbitt Burns Inc., as Syndication Agent (the “**Credit Agreement**”). Consequently, NFI may be considered to be a “connected issuer” of such Underwriters under applicable Canadian securities legislation.

The amounts outstanding under the secured term loan facility and the revolving credit facility under the Credit Agreement at April 1, 2012 amounted to approximately US\$111 million and US\$7 million, respectively. The Credit Agreement is guaranteed by NFI and certain subsidiaries of NFI, and the obligations in respect of the Credit Agreement are secured by all of the assets of the borrowers and the guarantors. NFI is in compliance in all material respects with the terms of the Credit Agreement and no breach under the Credit Agreement has been waived by the lenders thereto. None of the Canadian chartered banks affiliated with the Underwriters was involved in NFI’s decision to distribute the Debentures offered hereby. Such Underwriters negotiated the public offering price of the Debentures with NFI. The decision to purchase Debentures by the Underwriters was made independently of the lenders under the Credit Agreement and any other affiliates

of the Underwriters, and no such persons had any influence as to the determination of the terms of the distribution of the Debentures. The interest rate on the Debentures, the Conversion Price and the other terms and conditions of the Offering were established through negotiations between NFI and BMO Nesbitt Burns Inc. and CIBC World Markets Inc., on their own behalf and on behalf of the other Underwriters, without involvement of the lenders under the Credit Agreement. In addition, none of BMO Nesbitt Burns Inc., CIBC World Markets Inc., National Bank Financial Inc., TD Securities Inc. and Scotia Capital Inc. will receive any benefit from the Offering, other than the respective portion of the Underwriters' Fee payable by NFI to such Underwriters.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Torys LLP, counsel to NFI, and Goodmans LLP, counsel to the Underwriters, (collectively, "**Counsel**") the following is, as of the date of this short form prospectus, a general summary of the principal Canadian federal income tax considerations under the Tax Act generally applicable to a holder of Debentures who acquires Debentures pursuant to this Offering and who, at all relevant times, for purposes of the Tax Act, holds the Debentures, and will hold the Common Shares issuable on the conversion, redemption or maturity of the Debentures (collectively, the "**Securities**"), as capital property, and deals at arm's length with and is not affiliated with NFI and the Underwriters (a "**Holder**").

Generally, the Securities will be considered to be capital property to a Holder provided that the Holder does not hold the Securities in the course of carrying on a business of trading or dealing in securities and has not acquired them in one or more transactions considered to be an adventure or concern in the nature of trade. This summary is not applicable to a Holder (a) that is a "financial institution", as defined in the Tax Act for the purposes of the mark-to-market rules, (b) an interest in which would be a "tax shelter investment" as defined in the Tax Act, (c) that is a "specified financial institution" as defined in the Tax Act, or (d) that makes or has made a functional currency reporting election pursuant to section 261 of the Tax Act to report its "Canadian tax results" as defined in the Tax Act in a currency other than Canadian currency. Any such Holder should consult its own tax advisors with respect to an investment in the Securities.

This summary is based on the provisions of the Tax Act in force on the date hereof, all specific proposals to amend the Tax Act that have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "**Tax Proposals**") and Counsel's understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency ("**CRA**"). This summary assumes that the Tax Proposals will be enacted in the form proposed, however, no assurance can be given that the Tax Proposals will be enacted in the form proposed, if at all. This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Tax Proposals, does not take into account or anticipate any changes in the law, whether by legislative, governmental, administrative or judicial action or decision, nor does it take into account provincial, territorial or foreign income tax considerations, which may differ significantly from those discussed herein.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder or prospective Holder, and no representations with respect to the income tax consequences to any particular Holder or prospective Holder are made. Consequently, Holders and prospective Holders should consult their own tax advisors for advice with respect to the tax consequences to them of acquiring Debentures pursuant to this offering, having regard to their particular circumstances.

Foreign Exchange

For the purposes of the Tax Act, all amounts expressed in a currency other than Canadian dollars relating to the acquisition, holding or disposition of a Security, including interest, adjusted cost base and proceeds of disposition, must be determined in Canadian dollars using the relevant rate of exchange quoted by the Bank of Canada at noon on the day the amount first arose or such other rate of exchange as is acceptable to CRA.

Residents of Canada

The following portion of the summary is generally applicable to a Holder, who at all relevant times, for the purposes of the Tax Act, is or is deemed to be resident in Canada (a "**Resident Holder**"). Certain Resident Holders that might not otherwise be considered to hold their Securities as capital property may, in certain circumstances, be entitled to have the Securities and all other "Canadian securities" (as defined in the Tax Act) owned by such Holders in the taxation year of the election and all subsequent taxation years deemed to be capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. Such Holders should consult their own tax advisors for advice with respect to whether an election under subsection 39(4) of the Tax Act is available or advisable having regard to their particular circumstances.

Taxation of Interest on Debentures

A Resident Holder of Debentures that is a corporation, partnership, unit trust or trust of which a corporation or partnership is a beneficiary will be required to include in computing its income for a taxation year all interest on the Debentures that accrues or is deemed to accrue to such Resident Holder to the end of that taxation year or that becomes receivable or is received by the Resident Holder before the end of that taxation year, except to the extent that such interest was included in the Resident Holder's income for a preceding taxation year.

Any other Resident Holder of Debentures (including an individual, other than certain trusts), will be required to include in computing its income for a taxation year any interest on the Debentures that is received or receivable by the Resident Holder in that taxation year (depending upon the method regularly followed by the Resident Holder in computing income), except to the extent that such interest was included in the Resident Holder's income for a preceding taxation year. In addition, if at any time a Debenture should become an "investment contract" (as defined in the Tax Act) in relation to a Resident Holder (other than a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary), such Resident Holder will be required to include in computing income for a taxation year any interest that accrues or is deemed to accrue to the Resident Holder on the Debenture up to any "anniversary date" (as defined in the Tax Act) in that year to the extent such interest was not otherwise included in the Resident Holder's income for that year or a preceding year.

On an assignment or other transfer of a Debenture, a redemption or payment on maturity, a Resident Holder generally will also be required to include in income the amount of interest accrued on the Debenture from the date of the last interest payment to the date of disposition to the extent that such amount has not otherwise been included in the Resident Holder's income for that taxation year or a preceding taxation year. Under the terms of the Debentures accrued and unpaid interest to the conversion date will be paid in full upon the conversion and will therefore be treated as received by the Resident Holder. See "Description of the Debentures — Conversion Privilege."

As described above under the heading "Description of the Debentures — Interest Payment Election", NFI may elect to pay interest by issuing Common Shares to the Debenture Trustee for sale, in which event a Resident Holder would be entitled to a cash payment equal to the interest owed to the Resident Holder from the proceeds of sale of such Common Shares by the Debenture Trustee. If NFI were to pay interest in this manner, the Canadian federal income tax consequences to a Resident Holder would not differ from those described above.

A Resident Holder of Debentures that throughout the relevant taxation year is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay a refundable tax on its "aggregate investment income", which is defined in the Tax Act to include interest income.

Exercise of Conversion Privilege

Generally, a Resident Holder that converts a Debenture into Common Shares (or Common Shares and cash delivered in lieu of a fraction of a Common Share) pursuant to the conversion privilege will be deemed not to have disposed of the Debenture for the purposes of the Tax Act and, accordingly, will not be considered to realize a capital gain (or capital loss) on such conversion. Upon a conversion of a Debenture, interest accrued thereon to the date of conversion will be included in computing the Resident Holder's income as described above under the heading "— Taxation of Interest on Debentures".

A Resident Holder's cost of the Common Shares acquired on the conversion of a Debenture will generally be equal to the adjusted cost base of the Debenture immediately before the conversion, subject to the discussion below regarding cash received in lieu of fractional shares, and must be averaged with the adjusted cost base of all other Common Shares held by the Resident Holder as capital property for the purpose of calculating the adjusted cost base of each such share to the Resident Holder.

Under the current administrative practice of the CRA, a Resident Holder that, upon conversion of a Debenture, receives cash not in excess of C\$200 in lieu of a fraction of a Common Share may either treat this amount as proceeds of disposition of a portion of the Debenture, thereby realizing a capital gain (or capital loss), as discussed below under "— Taxation of Capital Gains and Capital Losses", or alternatively may reduce the adjusted cost base of the Common Shares that the Resident Holder receives on the conversion by the amount of the cash received.

Disposition of Debentures

A disposition or deemed disposition of a Debenture by a Resident Holder, including a redemption or repayment at maturity (but not including the conversion of a Debenture into Common Shares pursuant to the Resident Holder's conversion privilege as described above), will result in the Resident Holder realizing a capital gain (or capital loss) equal to the amount by which the proceeds of disposition, net of any accrued interest and other amounts included in the Resident Holder's income on such disposition or deemed disposition as interest, exceed (or are less than) the aggregate of the adjusted cost base of the Debenture to the Resident Holder immediately before the disposition or deemed disposition and any reasonable costs of disposition. Such capital gain (or capital loss) will be subject to the tax treatment described below under "— Taxation of Capital Gains and Capital Losses".

If NFI pays any amount upon the redemption or repayment at maturity of a Debenture by issuing Common Shares to the Resident Holder, the Resident Holder's proceeds of disposition will be equal to the fair market value of the Common Shares so received on the date of such redemption or Maturity Date, as the case may be (other than Common Shares received in satisfaction of accrued interest), which may result in a capital gain or capital loss. The cost to the Resident Holder of any Common Shares so received will be equal to the fair market value of such Common Shares on the date of such redemption or Maturity Date, as the case may be, and must be averaged with the adjusted cost base of all other Common Shares held by the Resident Holder as capital property for the purpose of calculating the adjusted cost base of each such Common Share to the Resident Holder.

Dividends on Common Shares

A Resident Holder will be required to include in computing its income for a taxation year any dividends received (or deemed to be received) on such Resident Holder's Common Shares.

In the case of a Resident Holder who is an individual (other than certain trusts), such dividends will be included in computing the individual's income and generally will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from a "taxable Canadian corporation" (as defined in the Tax Act), including the enhanced gross-up and dividend tax credit rules for "eligible dividends" (as defined in the Tax Act). A dividend will be eligible for the enhanced gross-up and dividend tax credit if the recipient receives written notice (which may include a notice published on NFI's website) from NFI designating the dividend as an eligible dividend.

Dividends received by a Resident Holder who is an individual (including certain trusts) may give rise to a liability for alternative minimum tax as calculated under the detailed rules set out in the Tax Act.

In the case of a Resident Holder that is a corporation, dividends received (or deemed to be received) on Common Shares by the Resident Holder will generally be included in the Resident Holder's income for the taxation year in which such dividends are received and will generally be deductible in computing the Resident Holder's taxable income, with the result that no tax will be payable by it in respect of such dividends. A Resident Holder that is a "private corporation" or a "subject corporation" (each as defined in the Tax Act) may be liable to pay a refundable tax of 33 1/3% under Part IV of the Tax Act on dividends received (or deemed to be received) on the Common Shares in a taxation year to the extent that such dividends are deductible in computing the corporation's taxable income for the year. This tax will generally be refunded to the corporation at a rate of C\$1.00 for every C\$3.00 of taxable dividends paid while it is a private corporation.

Disposition of Common Shares

A disposition or a deemed disposition of a Common Share by a Resident Holder (except to NFI) will generally result in the Resident Holder realizing a capital gain (or capital loss) equal to the amount by which the proceeds of disposition of the Common Share are greater (or less) than the aggregate of the Resident Holder's adjusted cost base thereof and any reasonable costs of disposition. Such capital gain (or capital loss) will be subject to the tax treatment described below under "— Taxation of Capital Gains and Capital Losses".

Taxation of Capital Gains and Capital Losses

Generally, one-half of any capital gain (a "**taxable capital gain**") realized by a Resident Holder in a taxation year must be included in the Resident Holder's income for the year, and one-half of any capital loss (an "**allowable capital loss**") realized by a Resident Holder in a taxation year must be deducted from taxable capital gains realized by the Resident Holder in that year. Allowable capital losses for a taxation year in excess of taxable capital gains realized in a taxation year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any

subsequent taxation year against net taxable capital gains realized in such years, to the extent and under the circumstances described in the Tax Act.

The amount of any capital loss realized by a Resident Holder that is a corporation on the disposition of a Common Share may be reduced by the amount of dividends received or deemed to be received by it on such Common Share (or on a share for which the Common Share has been substituted) to the extent and under the circumstances described by the Tax Act. Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns Common Shares, directly or indirectly through a partnership or a trust.

A Resident Holder that is, throughout the relevant taxation year, a “Canadian-controlled private corporation”, as defined in the Tax Act, may be liable for a refundable tax on “aggregate investment income”, which is defined in the Tax Act to include taxable capital gains.

Capital gains realized by an individual (including certain trusts) may give rise to a liability for alternative minimum tax as calculated under the detailed rules set out in the Tax Act.

Non-Residents of Canada

The following portion of the summary is applicable to a Holder who, at all relevant times for purposes of the Tax Act and any applicable income tax treaty, is neither resident or deemed to be resident in Canada, deals at arm’s length with any transferee resident (or deemed to be resident) in Canada and to whom the Holder disposes of Debentures, and who does not use or hold and is not deemed to use or hold Securities in, or in the course of carrying on a business in Canada (a “**Non-Resident Holder**”). Special rules, which are not discussed in this summary, may apply to a Non-Resident Holder who is an insurer or an “authorized foreign bank” (as defined in the Tax Act), and this summary is not applicable to such holders.

This portion of the summary is not applicable to a Non-Resident Holder that is a “specified shareholder” as defined in subsection 18(5) of the Tax Act of NFI or that does not deal at arm’s length for purposes of the Tax Act with a “specified shareholder” of NFI. Generally, for this purpose, a “specified shareholder” is a shareholder that owns or is deemed to own, either alone or together with persons with which the shareholder does not deal at arm’s length for purposes of the Tax Act, shares of NFI’s capital stock that either (i) give such holders 25% or more of the votes that could be cast at an annual meeting of the shareholders or (ii) have a fair market value of 25% or more of the fair market value of all of the issued and outstanding shares of NFI’s capital stock. Such Non-Resident Holders should consult their own tax advisors.

Taxation of Interest on Debentures

A Non-Resident Holder will not be subject to Canadian withholding tax in respect of amounts paid or deemed to have been paid or credited by NFI as, on account of or in lieu of, or in satisfaction of, interest or principal on the Debentures.

Exercise of Conversion Privilege

Generally, a Non-Resident Holder that converts a Debenture into Common Shares (or Common Shares and cash delivered in lieu of a fraction of a Common Share) pursuant to the conversion privilege will be deemed not to have disposed of the Debenture for the purposes of the Tax Act and, accordingly, will not be considered to realize a capital gain (or capital loss) on such conversion.

Disposition of Debentures and Common Shares

A Non-Resident Holder will not be subject to tax under the Tax Act in respect of any capital gain realized by such Non-Resident Holder on a disposition of a Debenture or Common Share, as the case may be, unless the Debenture or Common Share constitutes “taxable Canadian property” (as defined in the Tax Act) to the Non-Resident Holder at the time of disposition and the Non-Resident Holder is not entitled to relief under an applicable income tax treaty or convention. As long as the Common Shares are at the time of disposition listed on a designated stock exchange (which currently includes the TSX) the Debentures and the Common Shares will not constitute taxable Canadian property to a Non-Resident Holder at such time unless at any time during the sixty-month period that ends at that time (a) the Non-Resident Holder, persons with whom the Non-Resident Holder does not deal at arm’s length, or the Non-Resident Holder together with all such persons, owned 25% or more of any class or series of shares of the capital stock of NFI or an interest in, or an option in respect of such shares; and (b) more than 50% of the fair market value of the Common Shares derived, directly or indirectly from one or any combination of (i) real or immovable property situated in Canada, (ii) “Canadian resource property” (as defined in the

Tax Act), (iii) “timber resource property” (as defined in the Tax Act), and (iv) options or interests in respect of property described in (i), (ii) and (iii).

In the event that the Debentures or the Common Shares constitute or are deemed to constitute taxable Canadian property to any Non-Resident Holder, the tax consequences of realizing a capital gain on the disposition of such Debentures or Common Shares as described above under the heading “— Residents of Canada — Disposition of Debentures” and “— Residents of Canada — Disposition of Common Shares” generally will apply, subject to the Non-Resident Holder being entitled to relief under the provisions of an applicable income tax treaty or convention. Non-Resident Holders whose Common Shares or Debentures may be taxable Canadian property should consult with their own tax advisors for advice having regard to their particular circumstances.

Dividends on Common Shares

Dividends paid or credited on Common Shares, or deemed under the Tax Act to be paid or credited on the Common Shares, to a Non-Resident Holder will generally be subject to Canadian withholding tax at the rate of 25% on the gross amount of such dividends unless the rate is reduced under the provisions of an income tax treaty or convention between Canada and the country of residence of the Non-Resident Holder. For example, under the Canada-United States Tax Convention (1980) (the “**Treaty**”), the withholding tax rate in respect of a dividend paid to a person who is the beneficial owner of the dividend and who is resident in the United States for the purposes of, and is entitled to full benefits under the Treaty, is generally reduced to 15%.

PRIOR SALES

Other than as described below, during the 12-month period before the date of this short form prospectus, NFI has not issued any Common Shares or securities that are convertible into Common Shares.

On August 19, 2011, NFI completed a non-cash rights offering (the “**Rights Offering**”), pursuant to which each shareholder was issued one right (a “**Right**”) for each Common Share held, which entitled such shareholder to subscribe for nine additional Common Shares in exchange for C\$5.53 principal amount of Subordinated Notes (being the principal amount of Subordinated Notes represented by each IDS at that time) prior to August 18, 2011, the expiry date for the Rights Offering. Shareholders exercised approximately 89% of the Rights issued by tendering approximately C\$242.3 million principal amount of Subordinated Notes. Pursuant to the Rights Offering, NFI issued 394,315,425 Common Shares.

Subsequent to the Rights Offering, on September 30, 2011, NFI consolidated its Common Shares on the basis of one post-consolidation Common Share for every ten pre-consolidation Common Shares. Each IDS now consists of one Common Share and C\$55.30 principal amount of Subordinated Notes.

PRICE RANGE AND TRADING VOLUME

The Common Shares are currently listed and posted for trading on the TSX under the trading symbol “NFI”. The outstanding IDSs are currently listed and posted for trading on the TSX under the trading symbol “NFI.UN”. The monthly range of high and low prices and average volume of trading of the Common Shares and the IDSs on the TSX for the periods indicated below are set forth in the following table⁽¹⁾:

<u>Period</u>	<u>Common Shares</u>			<u>IDSs</u>		
	<u>Closing Price Per Common Share</u>			<u>Closing Price Per IDS</u>		
	<u>(C\$)</u>			<u>(C\$)</u>		
	<u>High</u>	<u>Low</u>	<u>Volume</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
2012						
May 1-28	7.56	6.90	573,489	68.30	64.86	25,118
April	7.50	6.96	493,656	66.93	65.05	19,648
March.....	8.16	6.92	941,652	68.68	65.34	35,834

<u>Period</u>	<u>Common Shares</u>			<u>IDSs</u>		
	<u>Closing Price Per Common Share</u>			<u>Closing Price Per IDS</u>		
	<u>(C\$)</u>			<u>(C\$)</u>		
	<u>High</u>	<u>Low</u>	<u>Volume</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
February.....	8.22	6.69	1,151,565	68.00	65.30	36,365
January.....	6.60	5.95	1,313,625	66.43	63.46	46,289
2011						
December.....	5.80	5.32	1,342,047	63.45	62.20	44,347
November.....	6.14	5.65	1,056,714	63.00	61.80	58,353
October ⁽²⁾	6.40	5.80	933,303	62.50	60.35	67,216
September.....	0.66	0.59	6,563,111	6.76	6.25	572,970
August ⁽³⁾	0.75	0.59	1,978,195	7.66	6.14	2,613,724
July.....				8.26	7.56	1,421,434
June.....				9.21	7.10	5,257,237
May.....				10.51	9.02	3,646,661

Notes:

⁽¹⁾ Source: Historical data from the TSX.

⁽²⁾ The Common Shares and the IDSs began trading on a post-consolidation basis on the TSX on October 5, 2011 and the trading prices after this date reflect such 10:1 consolidation. The trading prices and volume for October 3, 2011 and October 4, 2011 have also been adjusted to reflect such 10:1 consolidation.

⁽³⁾ The Common Shares began trading on the TSX on August 19, 2011, following the closing of the Rights Offering.

RISK FACTORS

Before making an investment decision, prospective purchasers of Debentures should consider carefully the information contained in and incorporated by reference in this short form prospectus and, in particular, the risk factors set out at pages 63 through 86, inclusive, in the AIF. These risks include risks related to the business of the Company and risks associated with the capital structure of the Company.

In addition to the foregoing, prospective purchasers of Debentures should consider the other information set forth below or contained elsewhere in this short form prospectus and the documents incorporated by reference herein.

Risks Relating to the Debentures

Market for Debentures

There is currently no market through which the Debentures may be sold and purchasers of Debentures may not be able to resell Debentures purchased under this short form prospectus. This may affect the trading prices of the Debentures in the secondary market, the transparency and availability of trading prices, the liquidity of Debentures, and the extent of issuer regulation. There can be no assurance that an active trading market will develop for the Debentures after the Offering or, if developed, that such market will be sustained. If an active market for the Debentures fails to develop or be sustained, the prices at which the Debentures trade may be adversely affected. The trading prices of the Debentures will depend on many factors, including liquidity of the Debentures, prevailing interest rates, the markets for similar securities, the market price of the Common Shares, general economic conditions and NFI's financial condition, financial performance and future prospects.

The condition of the financial and credit markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future. Fluctuations in these factors could have an adverse effect on the market price of the Debentures.

Credit Risk and Prior Ranking Indebtedness; Absence of Covenant Protection

The likelihood that purchasers of the Debentures will receive payments owing to them under the terms of the Debentures will depend on the financial health of NFI and its creditworthiness. In addition, the Debentures are unsecured obligations of NFI and are subordinate in right of payment to all NFI's existing and future Senior Indebtedness. Therefore, if NFI becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, NFI's assets will be available to pay its obligations with respect to the Debentures only after it has paid all of its Senior Indebtedness in full. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the Debentures then outstanding. The Debentures are also effectively and structurally subordinate to claims of creditors (including trade creditors) of NFI's subsidiaries. The Indenture does not prohibit or limit the ability of NFI or its subsidiaries to incur additional debt or liabilities (including Senior Indebtedness) or to make distributions on the Common Shares. The Indenture will not contain any provision specifically intended to protect holders of Debentures in the event of a future leveraged transaction involving NFI.

Change of Control

NFI will be required to offer to purchase all outstanding Debentures within 30 days following the occurrence of a Change of Control. However, it is possible that following a Change of Control, NFI will not have sufficient funds at that time to make the required purchase of outstanding Debentures or that restrictions contained in other indebtedness will restrict those purchases. NFI's failure to purchase the Debentures would constitute an Event of Default under the Indenture, which might constitute a default under the terms of NFI's other indebtedness at that time. See "Description of the Debentures — Change of Control".

If a holder of Debentures converts its Debentures in connection with a Cash Change of Control that occurs, NFI may, in certain circumstances, be required to increase the conversion rate as described under "Description of the Debentures — Cash Change of Control". While the increased conversion rate is designed to compensate a holder of Debentures for the lost option time value of its Debentures as a result of a Cash Change of Control in certain circumstances, the increased conversion rate amount is only an approximation of such lost value and may not adequately compensate the holder for such loss. In addition, in some circumstances as described under "Description of the Debentures — Cash Change of Control" no adjustment will be made.

Redemption Prior to Maturity

The Debentures may be redeemed, at the option of NFI, on and after June 30, 2015 and prior to the Maturity Date at any time and from time to time (provided that the Current Market Price on the date on which notice of redemption is given is not less than 125% of the Conversion Price). Holders of Debentures should assume that this redemption option will be exercised if NFI is able to refinance at a lower interest rate or it is otherwise in the interest of NFI to redeem the Debentures.

Conversion Following Certain Transactions

In the case of certain transactions, each Debenture may (i) become convertible into the securities, cash or property receivable by a holder of Common Shares based on the number of Common Shares into which the Debenture was convertible immediately prior to the transaction, or (ii) become convertible into certain prescribed securities with limited liquidity. These changes could substantially lessen or eliminate the value of the conversion privilege associated with the Debentures in the future and result in the receipt of illiquid securities and thereby have a material adverse effect on the value of the Debentures. See "Description of the Debentures — Anti-Dilution Provisions".

Prevailing Yields on Similar Securities

Prevailing yield on similar securities will affect the market value of the Debentures. Assuming all other factors remain unchanged, the market value of the Debentures will decline as prevailing yields for similar securities rise, and will likely increase as prevailing yields for similar securities decline.

Possible Dilutive Effects on Holders of Common Shares

NFI may determine to redeem outstanding Debentures for Common Shares or to repay outstanding principal amounts and interest owing thereunder at maturity of the Debentures by issuing additional Common Shares. Accordingly, holders of Common Shares may suffer dilution.

Currency Risk

The Debentures are denominated in U.S. dollars; however, the Common Shares issuable on conversion of the Debentures trade on the TSX in Canadian dollars. Subject to certain conditions to be set forth in the Indenture, NFI has the option to repay the principal amount of Debentures or to pay the interest on the Debentures by issuing Common Shares. Fluctuations in the exchange rates between the U.S. dollar and the Canadian dollar could impact the number of Common Shares issuable in such circumstances.

INTEREST OF EXPERTS

Certain legal matters relating to the Offering will be passed upon by Torys LLP on behalf of NFI, and by Goodmans LLP on behalf of the Underwriters. As at the date hereof, the partners and associates of each of Torys LLP and Goodmans LLP beneficially own, directly or indirectly, less than 1% of the securities of NFI and its associates and affiliates.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of NFI are Deloitte & Touche LLP, Chartered Accountants. To the knowledge of NFI, Deloitte & Touche LLP is independent in accordance with the rules of professional conduct of the Institute of Chartered Accountants of Manitoba.

The transfer agent and registrar for the Common Shares is Computershare Investor Services Inc. at its principal office in Toronto, Ontario.

STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal advisor.

INDEPENDENT AUDITOR'S CONSENT

We have read the short form prospectus of New Flyer Industries Inc. (the "Company") dated May 29, 2012 relating to the issue and sale of US\$65,000,000 convertible unsecured subordinated debentures of the Company. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned prospectus of our report to the shareholders of the Company on the consolidated statements of financial position as at January 1, 2012, January 2, 2011 and January 4, 2010, and the consolidated statements of net earnings and comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years ended January 1, 2012 and January 2, 2011. Our report is dated March 21, 2012.

(Signed) DELOITTE & TOUCHE LLP
Chartered Accountants
Winnipeg, Manitoba
May 29, 2012

CERTIFICATE OF THE ISSUER

Dated: May 29, 2012

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces and territories of Canada.

NEW FLYER INDUSTRIES INC.

By: (Signed) PAUL SOUBRY
Chief Executive Officer

By: (Signed) GLENN ASHAM
Chief Financial Officer

On behalf of the Board of Directors

By: (Signed) THE HONOURABLE BRIAN TOBIN
Director

By: (Signed) WAYNE M.E. MCLEOD
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: May 29, 2012

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces and territories of Canada.

BMO NESBITT BURNS INC.

Per: (Signed) BRAD FRASER
Managing Director

CIBC WORLD MARKETS INC.

Per: (Signed) JASON STEFANSON
Managing Director

NATIONAL BANK FINANCIAL INC.

Per: (Signed) MITCHELL GILBERT
Director

TD SECURITIES INC.

Per: (Signed) RYAN QUIRT
Vice President

SCOTIA CAPITAL INC.

Per: (Signed) CHRIS BLACKWELL
Managing Director

CANACCORD GENUITY CORP.

Per: (Signed) JAMES MERKUR
Managing Director

PI FINANCIAL CORP.

Per: (Signed) BLAKE CORBET
Managing Director