May 8, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS ENDED MARCH 31, 2013

Information in this Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of New Flyer Industries Inc. ("NFI") is supplemental to, and should be read in conjunction with, NFI's interim condensed consolidated financial statements (including notes) (the "Financial Statements") for the 13-week period ended March 31, 2013 ("2013 Q1"). This MD&A contains forward-looking statements, which are subject to a variety of factors that could cause actual results to differ materially from those contemplated by the forward-looking statements. See "Forward-looking Statements". Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the factors described in the public filings of NFI available on SEDAR at www.sedar.com. The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and, except where otherwise indicated, are presented in U.S. dollars, representing the functional currency of NFI. Unless otherwise indicated, the financial information contained in this MD&A has been prepared in accordance with IFRS and references to "$" or "dollars" mean U.S. dollars.

MEANING OF CERTAIN REFERENCES

References in this MD&A to "New Flyer" or the "Company" are to NFI and its consolidated subsidiaries. References in this MD&A to "management" are to management of NFI and the Company.

The common shares of NFI ("Shares") are traded on the Toronto Stock Exchange ("TSX") under the symbol "NFI" and NFI's 6.25% convertible unsecured subordinated debentures ("Debentures") are traded on the TSX under the symbol "NFI.DB.U". As of March 31, 2013, 49,304,600 Shares and $65 million aggregate principal amount of Debentures were outstanding. Additional information about NFI and the Company, including NFI's annual information form is available on SEDAR at www.sedar.com.

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

Forward-looking Statements

Certain statements in this MD&A are "forward-looking statements", which reflect the expectations of management regarding NFI's and the Company's future growth, results of operations, performance and business prospects and opportunities. The words "believes", "anticipates", "plans", "expects", "intends", "projects", "estimates" and similar expressions are intended to identify forward-looking statements. These forward-looking statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this MD&A. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not or the times at or by which such performance or results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements. Such differences may be caused by factors which include, but are not limited to 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 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 U.S federal "Buy-America" legislation, certain states' U.S. content bidding preferences 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, 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 ("Credit Facility") and the indenture governing its Debentures could impact the ability of the Company to fund dividends 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, new products must be tested and proven in operating conditions and there may be no demand for such new products from customers, the ability of the Company to successfully execute strategic plans and maintain profitability, risks related to acquisitions, joint ventures, and other strategic relationships with third parties and the ability to successfully integrate acquired businesses and assets into the Company's existing business and to generate accretive effects to income and cash flow as a result of integrating these acquired businesses and assets. NFI cautions that this list of factors is not exhaustive. These factors and other risks and uncertainties are discussed in NFI's press releases and materials filed with the Canadian securities regulatory authorities and are available on SEDAR at www.sedar.com.

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

DEFINITIONS OF EBITDA, ADJUSTED EBITDA AND FREE CASH FLOW

References to "EBITDA" are to earnings before interest expense, income taxes, depreciation and amortization; losses or gains on disposal of property, plant and equipment; unrealized foreign exchange losses or gains on non-current monetary items and forward foreign exchange contracts and fair value adjustment to embedded derivatives. References to "Adjusted EBITDA" are to EBITDA after adjusting for: the effects of certain non-recurring and/or non-operations related items that have impacted the business and are not expected to recur, including non-recurring costs relating to the Orion parts business acquisition, loss on debt repurchase, loss on exercise of redemption right, past service pension costs, realized and unrealized investment tax credits ("ITCs"), and costs associated with assessing strategic and corporate initiatives.

Management believes EBITDA, Adjusted EBITDA and Free Cash Flow (as defined below) are useful measures in evaluating the performance of the Company. "Free Cash Flow" means net cash generated by operating activities adjusted for changes in non-cash working capital items, interest paid, interest expense, income taxes paid, current income tax expense, effect of foreign currency rate on cash, defined benefit funding, non-recurring costs relating to the Orion parts business acquisition, costs associated with assessing strategic and corporate initiatives, past service pension costs, proceeds on sale of redundant assets and decreased for defined benefit expense, cash capital expenditures and principal payments on capital leases. However, EBITDA, Adjusted EBITDA and Free Cash Flow are not recognized earnings measures and do not have standardized meanings prescribed by IFRS. Readers of this MD&A are cautioned that EBITDA, Adjusted EBITDA and Free Cash Flow should not be construed as an alternative to net earnings or loss determined in accordance with IFRS as an indicator of NFI's and/or the Company's performance or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. A reconciliation of net earnings and cash flow to EBITDA and Adjusted EBITDA, based on the Financial Statements, has been provided under the heading "Reconciliation of Net Earnings to EBITDA and Adjusted EBITDA" and "Reconciliation of Cash Flow to EBITDA and Adjusted EBITDA", respectively. A reconciliation of Free Cash Flow to cash flows from operations is provided under the heading "Summary of Free Cash Flow".

NFI's method of calculating EBITDA, Adjusted EBITDA and Free Cash Flow may differ materially from the methods used by other issuers and, accordingly, may not be comparable to similarly titled measures used by other issuers. Dividends paid from Free Cash Flow are not assured, and the actual amount of dividends received by holders of Shares will depend on, among other things, the Company's financial performance, debt covenants and obligations, working capital requirements and future capital requirements, all of which are susceptible to a number of risks, as described in NFI's public filings available on SEDAR at www.sedar.com.

Business Overview

New Flyer is the leading manufacturer of heavy-duty transit buses in the United States and Canada and a leading provider of aftermarket parts and support. The Company operates three manufacturing facilities in Winnipeg, MB, St. Cloud, MN and Crookston, MN (all ISO 9001, ISO 14001 and OHSAS 18001 certified), as well as a bus parts fabrication facility in Elkhart, Indiana. The Company also has four parts distribution centers in Winnipeg, MB, Brampton, ON, Erlanger, KY and Fresno, CA and a service center in Arnprior, ON. With a skilled workforce of over 2,200 employees, New Flyer is the technology leader in the heavy-duty transit bus market, offering the broadest and most advanced product line in the industry. New Flyer's mission statement is: to deliver the best bus value and support for life.

Industry Overview

Heavy-Duty Transit market

On March 21, 2013, both the U.S. House and Senate voted to approve a continuing resolution ("CR") that will continue funding for federal agencies through September 30, 2013, which then was signed by President Obama. The previous CR expired on March 27, 2013. The approved resolution fully funds MAP-21 FTA Formula and Bus programs at $8.5 billion. The CR does not alter the sequestration process, so despite the restoration of MAP-21 Formula and Bus funding, those projects funded from the General Fund – including New Starts, FTA Research, FTA Administration, Hurricane Sandy Emergency Relief, and Amtrak – will still face cuts in funding of approximately 5%.

Management remains encouraged by U.S. states general economic health improvement as evidenced by preliminary data from the Nelson Rockefeller Institute. The data alert issued by the Rockefeller Institute on March 6, 2013 regarding U.S. state tax collections, which shows an increase in the fourth quarter of 2012 for the 12th consecutive quarter, with a reported 5.7% increase over the prior year.

Recent Ridership Trends

Transit ridership in both Canada and the United States continue to improve. At December 31, 2012, the American Public Transportation Association's ("APTA") ridership report indicated an increase in ridership of 1.49% in 2012 as compared to 2011, with bus ridership up 1.20% during the same period. However, U.S. transit ridership during the fourth quarter of 2012 decreased 2.04% in all modes of public transportation compared with the previous year's fourth quarter, whereas bus ridership was essentially flat. One of the reasons for the decrease is the 74 million trips that were lost when the U.S. east coast's public transit systems were shut down due to Hurricane Sandy and the blizzard that followed the next week. According to APTA, the demand for public transportation rose last year as Americans took 10.5 billion trips, the second highest ridership since 1957, and 154 million more trips than the previous year. This is the seventh year in a row that more than 10 billion trips were taken on public transportation systems in the U.S. The same report indicates Canadian ridership increased by 2.82% in all modes of transit ridership during the fourth quarter of 2012, and increased 2.28% year-to-date as compared to the previous year.

Demand for Heavy-Duty Transit Buses

APTA has reported that the average age for U.S. heavy-duty buses has risen from six to eight years from 2002 to 2012, which management believes should create demand for replacement buses in the near future. The Canadian Urban Transit Association has reported the average age of heavy-duty buses has reduced from ten to eight years, maintaining a relatively flat replacement cycle. Canadian transit agencies continue to maintain and replace fleets and this is generally expected to continue for the foreseeable future.

Bus manufacturers have some forward order visibility due to the fleet planning, budgeting and funding application processes its customers undertake in order to purchase new vehicles. The Company tracks new and potential orders in a "pipeline" or "bid universe" as an indicator of management's forecast for overall market demand and bid activity for heavy-duty transit bus industry in Canada and the United States. The pipeline of EUs consists of: bids received with proposal in process, bids submitted and awaiting award and solicitations that management expects to be released by U.S. and Canadian transit agencies within a five-year horizon.

Equivalent Units	Bids in Process	Bids Submitted	Expected Future Industry Procurement over 5 Years(1)	**Total**
2011 Q4	1,848	2,186	9,266	13,300
2012 Q1	2,390	3,107	9,603	15,100
2012 Q4	4,214	4,626	10,613	19,453
2013 Q1	3,173	4,145	7,917	15,235

(1) Management's estimate of expected future industry procurement over the next five years is based on discussions directly with individual U.S. and Canadian transit authorities.

Management believes that the transit market continues to show positive signs of recovery. A number of large bids were awarded in 2013 Q1, as reflected in the total bid universe decreasing by more than 4,000 EUs from the previous quarter. As described on page 5, New Flyer was awarded new orders of 2,004 EUs in 2013 Q1. As well, the total number of request for proposals received and in process of

review at New Flyer, and bids or proposals submitted by New Flyer awaiting customer action at the end of 2013 Q1 remains high at 7,318 EUs, compared to 5,497 EUs at April 1, 2012 and 4,034 EUs at January 1, 2012.

Price, engineering to customer specification, styling, product quality, maintainability, on-time delivery, established track record, strong customer relationships and bidders' financial strength are some of the key factors in winning bus manufacturing contracts. With customers experiencing significant budget pressure in the past few years, price has taken on a more meaningful weighting. The competitive landscape of the industry in the United States and Canada is comprised of four major competitors: New Flyer, Gillig Corporation, North American Bus Industries, which is owned by Cerberus Capital, and Nova Bus, which is owned by Volvo. Daimler Buses North America, Inc. ("DBNA" or "Orion") announced on April 25, 2012 that it had decided to immediately exit the heavy-duty transit bus business in North America and has wound down production of Orion buses in the U.S. and Canada.

Aftermarket Parts

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

On March 1, 2013, the Company acquired from DBNA certain assets and assumed customer and supplier contracts relating to the Orion aftermarket parts business for heavy-duty transit buses. The Company expects the acquisition to add value by reducing costs through combined economies of scale, footprint and overhead utilization and management expects this transaction to be accretive to earnings and cash flow.

DBNA's Orion parts business generated revenue in 2012 of approximately $54 million, a portion of which was from supporting the nearly 10,000 Orion buses currently in operation in Canada and the United States. In accordance with the terms of the transaction with DBNA, New Flyer has acquired DBNA's Orion aftermarket parts inventory and assumed certain obligations under its parts contracts with transit customers, acquired an exclusive license to use DBNA's proprietary part designs for Orion buses in connection with New Flyer's aftermarket parts business, and entered into an arrangement under which New Flyer will be the exclusive supplier of parts required by DBNA for customer warranty support, under Orion bus purchase contracts and pre-closing parts contracts. The companies have also entered into a transition services agreement for an interim period following the purchase, during which time the business will be prudently and efficiently integrated into New Flyer's business systems and four existing parts distribution centers in Canada and the U.S.

Gross orders received by New Flyer's aftermarket business during 2013 Q1 for core parts sales (excluding Orion's incremental orders or deliveries) increased 11.3% compared to the 13-week period ended April 1, 2012 ("2012 Q1"), while shipments in 2013 Q1 increased 3.6% over 2012 Q1. 2013 Q1 orders also rose 5.4% over 2012 Q4 and shipments were up 13.3% over 2012 Q4. The Company continues to experience a difficult and challenging price environment.

During 2013 Q1, the Company commenced a transit bus mid-life overhaul program with Chicago Transit Authority ("CTA") awarded in February 4, 2013. This mid-life program is for CTA's fleet of 1,029 New Flyer buses currently in operation that have been in service for up to seven years and have more than 275,000 miles each in daily stop-and-go traffic. The contract awarded to New Flyer is for supply of certain spare parts and labor services for the mid-life overhaul program estimated at approximately $50.0 million over the next 24 months for a specific group of 400 New Flyer buses. New Flyer will also provide an estimated $25 million of spare parts and labor services directly to another supplier who was awarded the second mid-life contract by CTA for specific scopes of work on another group of 629 New Flyer buses. This overhaul program is the first of its kind for New Flyer's aftermarket business, whereby New Flyer will provide CTA with a turn-key solution for a mid-life program.

2013 First Quarter in Review

On January 23, 2013, Marcopolo S.A. (“Marcopolo”) entered into an agreement with the Company to make a strategic investment of approximately C$116.0 million to acquire 11,087,834 newly issued Shares, representing a 19.99% stake in the Company. Each Share will be issued at a price of C$10.50 per Share, or a 20% premium to the 30 day volume-weighted average trading price of the Shares on the TSX for the period ending January 23, 2013. 4,925,530 Shares were issued to a wholly-owned Canadian subsidiary of Marcopolo on February 15, 2013 for aggregate consideration of C$51.7 million with the remainder of the Shares to be issued to Marcopolo at the same price per Share in one tranche on or prior to February 17, 2014 as determined by the Company based on its investment and financing needs and in certain other circumstances.

Order activity during 2013 Q1

New orders (firm and options) for 2013 Q1 totaled 2,004 EUs, which represents the highest level of order intake by New Flyer in a quarter since the fourth quarter of 2008. The new firm and option orders awarded to New Flyer over the last twelve months (“LTM”) ending March 31, 2013 were 3,596 EUs compared to 537 EUs for the LTM ending April 1, 2012. Also, New Flyer was successful at converting options for 1,046 EUs as compared to 1,270 EUs during the same LTM periods.

As well, firm and option orders of an additional 464 new buses (518 EUs) for New Flyer were pending at the end of 2013 Q1; approval had been granted by the customer's board, council, or commission, as applicable, but purchase documentation had not been received by the Company prior to March 31, 2013 and therefore these orders were not included in the 2013 Q1 backlog. Management anticipates that it will receive notices to proceed for all 518 EUs.

The total backlog at the end of 2013 Q1 was 7,527 EUs, an increase of 19% from the backlog at the end of the 13-week period ended December 30, 2012 (“2012 Q4”). The firm portion of the total backlog at the end of 2013 Q1 is made up of 1,899 EUs which has increased 14% compared with 1,672 EUs at the end of 2012 Q4. The total value of the order backlog at the end of 2013 Q1 was $3.3 billion, compared with $2.7 billion at the end of 2012 Q4. This increase in total backlog was not unexpected, nor inconsistent with current market conditions or management's expectations. New Flyer's current backlog includes orders for clean propulsion vehicles (such as, electric-hybrid, electric-trolley, compressed natural gas, liquid natural gas and all-electric) representing approximately 78% of the total orders.

Deliveries in 2013 Q1 were 490 EUs, improved 10.9% from 442 EUs delivered in 2012 Q1. A portion of the increased deliveries were as a result of the Company being able to reduce the work in process inventory (“WIP”) levels by 22 EUs by delivering buses that were temporarily delayed at the end of 2012 Q4 due to a supplier quality issue.

New Flyer’s Book-to-Bill ratio (defined as new order intake – both firm and options - divided by deliveries in the quarter) for the LTM ending March 31, 2013 was 211% as compared to a Book-to-Bill ratio of only 31% for the LTM ended April 1, 2012. This is the first time since the third quarter of 2009 where the Book-to-Bill ratio was equal to or greater than 100% for two straight quarters. A ratio of above 100% implies that more orders were received than filled, indicating strong demand, while a ratio below 100% implies weaker demand.

New Flyer plans for its production line entry rate in Fiscal 2013 to average approximately 36 EUs per week, however, the actual production rate in any quarter will vary based on the order mix between 40-foot and 60-foot buses and the timing required to place orders into productions. During 2013 Q1, the Company line entered 468 EUs during 12.4 production weeks (adjusted for statutory holidays) representing an average production rate of 37.7 EUs per production week. The higher line entry rate in 2013 Q1 was primarily as a result of higher than average production of 60-foot buses which requires fewer direct labour hours per EU than a 40-foot bus, and therefore, the production rate was accelerated to stabilize staffing levels without negatively impacting operating efficiency. Management currently expects the line entry rate to be on average less than 36 EUs per production week in the third quarter of 2013 due to a company-wide planned vacation during the first week. Management estimates that the level of WIP at each of the Fiscal 2013 reporting periods will range between approximately 200 to 230 EUs.

As a result of the strategic investment and working relationship that have been recently established with Marcopolo, management has begun to explore activities that it hopes will expand the Company’s strength through the sourcing of new products for the North American transit bus market, cost reduction opportunities and possible further business acquisitions aimed at achieving the Company’s goal for diversification and growth.

Last year the Company announced that it has entered into a long-term strategic arrangement with Alexander Dennis Limited, the largest bus builder in the UK, to introduce a North American mid-sized medium-duty low-floor bus specifically developed and tested to a 10-year operational life. This mid-sized bus will be offered to both public transit and private operators and will have propulsion system options ranging from clean diesel and compressed natural gas. Prototypes of the bus for North America have been built. The first New Flyer Midi™ was officially unveiled at the APTA Bus and Paratransit Conference on May 6, 2013 in Indianapolis.

The Company and the union of members of the Communication Workers of America ("CWA") collective bargaining unit at New Flyer's St. Cloud facility failed to ratify the negotiated new four-year collective bargaining agreement on the first vote. The current collective bargaining agreement expired on March 31, 2013, and will continue in effect as is unless terminated by action of either party. Management and leadership representing these CWA production unit employees continue to negotiate a new collective agreement. The St. Cloud's unionized workforce represents approximately 19 percent of New Flyer's total workforce.

2013 First Quarter Financial Results

The Company achieved consolidated revenue for 2013 Q1 of $247.4 million, an increase of 8.7% from the consolidated revenue for 2012 Q1 of $227.6 million.

Revenue from bus manufacturing operations for 2013 Q1 was $210.0 million, which increased 7.0% compared to bus manufacturing revenue of $196.2 million in 2012 Q1. The increase in 2013 Q1 revenue primarily resulted from the increase in deliveries and a decrease in the average bus selling price during 2013 Q1 compared to 2012 Q1. The average selling price per EU in 2013 Q1 was $428.6 thousand compared to $444.0 thousand in 2012 Q1 and is attributed to a mix of products sold. Total bus deliveries of 490 EUs in 2013 Q1 increased 10.9% when compared to 2012 Q1 deliveries of 442 EUs. The increased deliveries were as a result of the Company being able to reduce the WIP levels by 22 EUs by delivering buses that were temporarily delayed at the end of 2012 Q4 due to a supplier quality issue. This resulted in WIP at the end of 2013 Q1 totaling 203 EUs. The delivery increase was also impacted by higher production rate (468 EUs line entered in 2013 Q1 vs. 428 EUs in 2012 Q1).

The revenue from aftermarket operations in 2013 Q1 was $37.3 million compared to $31.4 million in 2012 Q1, which represents an increase of 18.9%. The increase in aftermarket operations revenue is primarily a result of increased volumes including incremental revenue of $5.0 million from the Orion parts business subsequent to the March 1, 2013 acquisition date.

Consolidated Adjusted EBITDA for 2013 Q1 totaled $15.4 million compared to $15.9 million in 2012 Q1. 2013 Q1 bus manufacturing operations Adjusted EBITDA of $9.9 million (4.7% of revenue) decreased by 2.9% compared to bus manufacturing operations Adjusted EBITDA of $10.2 million (5.2% of revenue) in 2012 Q1. 2013 Q1 aftermarket operations Adjusted EBITDA of $5.5 million (14.7% of revenue) decreased by 4.7% compared to $5.7 million (18.3% of revenue) in 2012 Q1, primarily due to lower profit margins. The 2013 Q1 aftermarket operations Adjusted EBITDA normalized to exclude Orion parts business contribution would be $4.6 million, a decrease of 19.5% from 2012 Q1. 2013 Q1 aftermarket operations Adjusted EBITDA included $0.8 million generated from the first 30 days of operating the Orion parts business after normalizing EBITDA for $0.2 million of non-recurring transitional costs. Readers are cautioned that March results may not be representative of every month and therefore should not be linearly extrapolated to forecast the entire year.

The Company reported net earnings of $3.5 million in 2013 Q1 compared to net earnings of $0.4 million in 2012 Q1. The increase in net earnings in 2013 Q1 is primarily attributable to the decrease in non-cash charges, such as fair value adjustment to embedded derivatives and unrealized foreign exchange losses and a decrease in income tax expense when comparing the two periods. The Company's net earnings can be subject to a high degree of volatility from one fiscal period to the next as a result of non-cash and non-recurring charges and income taxes.

The Company generated Free Cash Flow of C$7.0 million during 2013 Q1 while declaring dividends of C$7.0 million as compared to Free Cash Flow of C$8.0 million during 2012 Q1 while declaring dividends of C$9.5 million. Management believes that sufficient Free Cash Flow will be generated to maintain the current dividend rate.

During 2013 Q1, the Company decreased its cash by $4.6 million primarily due to increased investment in non-cash working capital items, such as increased accounts receivable and income taxes recoverable which offset the net cash retained after investing in Orion's parts business with a portion of the cash received from Marcopolo's investment in NFI.

The liquidity position as at March 31, 2013 of $33.4 million is comprised of cash of $6.6 million and $26.8 million of available secured revolving credit facility. As at March 31, 2013, there were $48.7 million of direct borrowings and $14.5 million of outstanding letters

of credits related to the $90.0 million of secured revolving credit. Management believes that these funds will provide the Company with sufficient liquidity and capital resources to meet its current and future financial obligations as they come due, as well as provide funds for its financing requirements, capital expenditures and other needs for the foreseeable future.

SELECTED FINANCIAL AND OPERATING INFORMATION

The following selected consolidated financial and operating information of the Company has been derived from and should be read in conjunction with the historical financial statements of the Company.

QUARTERLY AND ANNUAL FINANCIAL INFORMATION

(unaudited, US dollars in thousands, except for deliveries in equivalent units and per share figures)

Fiscal Period	Quarter	Revenue	Earnings from Operations*	Net earnings (loss)*	EBITDA* [1]	Adjusted EBITDA* [1]	Earnings (loss) per share*[3]
2013	Q1	$ 247,378	$ 6,496	$ 3,513	$ 12,788	$ 15,376	$ 0.08
	Total	**$ 247,378**	**$ 6,496**	**$ 3,513**	**$ 12,788**	**$ 15,376**	**$ 0.08**
2012*	Q4	$ 209,870	$ 7,725	$ 3,929	$ 14,061	$ 14,451	$ 0.09
	Q3	208,421	7,820	1,523	13,889	14,072	0.03
	Q2	226,980	10,686	3,398	11,055	16,366	0.08
	Q1	227,644	7,260	440	13,282	15,936	0.01
	Total	**$ 872,915**	**$ 33,491**	**$ 9,290**	**$ 52,287**	**$ 60,825**	**$ 0.21**
2011*	Q4	$ 256,918	$ 30,063	$ 15,632	$ 35,214	$ 15,855	$ 0.35
	Q3	229,308	15,764	13,997	18,228	22,206	0.57
	Q2	225,853	12,811	(7,319)	18,765	20,037	(1.48)
	Q1	214,344	14,991	(6,361)	20,943	21,989	(1.29)
	Total	**$ 926,423**	**$ 73,629**	**$ 15,949**	**$ 93,150**	**$ 80,087**	**$ 0.81**

Fiscal Period	Quarter	Inventory, Beginning (equivalent units)[2]	New Line Entry (equivalent units)[2]	Deliveries (equivalent units)[2]	Inventory, Ending (equivalent units)[2]	Inventory comprised of: Work in process (equivalent units)[2]	Finished goods (equivalent units)[2] & [4]
2013	Q1	225	468	490	203	199	4
	Total	**225**	**468**	**490**	**203**	**199**	**4**
2012	Q4	183	429	387	225	217	8
	Q3	187	382	386	183	178	5
	Q2	175	453	441	187	167	20
	Q1	189	428	442	175	163	12
	Total	**189**	**1,692**	**1,656**	**225**	**217**	**8**
2011	Q4	238	421	470	189	185	4
	Q3	236	444	442	238	233	5
	Q2	218	449	431	236	224	12
	Q1	209	477	468	218	200	18
	Total	**209**	**1,791**	**1,811**	**189**	**185**	**4**

(*) Net earnings and earnings per share have been restated to reclassify the previous recording of the benefit associated with utilizing loss carry forwards and deducting historical Share issuance costs as a reduction of current income taxes. This correction did not have an impact on assets, liabilities or ending deficit of the Company. As well, the Company has adjusted amounts reported previously in the 2012 Q1 Financial Statements as a result of the retrospective application of the amendments to IAS 19, Employee Benefits. For details, see footnote 10 on page 13 of this MD&A and Note 2.4 and Note 6 of the Financial Statements.

COMPARISON OF FIRST QUARTER AND TRAILING TWELVE MONTHS RESULTS

(Unaudited, U.S. dollars in thousands, except for deliveries in equivalent units)

	13-Weeks Ended March 31, 2013	13-Weeks Ended April 1, 2012 (*restated)	**52-weeks Ended March 31, 2013**	52-weeks Ended April 1, 2012 (*restated)
Statement of Earnings Data				
Revenue				
Canada	$ 38,370	$ 32,860	$ 127,882	$ 121,259
U.S.	171,668	163,373	639,788	697,933
Bus manufacturing operations	210,038	196,233	767,670	819,192
Canada	12,245	9,695	39,739	37,857
U.S.	25,095	21,716	85,240	82,674
Aftermarket operations	37,340	31,411	124,979	120,531
Total revenue	$ 247,378	$ 227,644	$ 892,649	$ 939,723
Earnings from operations	$ 6,496	$ 7,260	$ 32,727	$ 65,898
Earnings before finance costs and income taxes	6,271	4,906	26,528	64,121
Net earnings	3,513	440	12,363	22,750
EBITDA(1)	12,788	13,282	51,793	85,489
Adjusted EBITDA(1)				
Bus manufacturing operations including realized foreign exchange losses/gains	9,901	10,191	40,958	50,437
Aftermarket operations	5,475	5,745	19,307	23,597
Total Adjusted EBITDA(1)	$ 15,376	$ 15,936	$ 60,265	$ 74,034
Other Data (unaudited)				
Canada	92	78	306	280
U.S.	398	364	1,398	1,505
Total deliveries (equivalent units)(2)	490	442	1,704	1,785
Total capital expenditures	$ 1,013	$ 3,660	$ 10,209	$ 10,934
New options awarded	$ 719,810	$ —	$ 1,030,117	$ 194,192
New firm orders awarded	$ 229,000	12,017	609,870	50,839
Exercised options	99,150	65,869	463,341	561,425
Total firm orders	$ 328,150	$ 77,886	$ 1,073,211	$ 612,264

(*) See Footnote 10 on page 13 of this MD&A and Note 2.4 and Note 6 to the Financial Statements.

(1) EBITDA and Adjusted EBITDA are not recognized earnings measures and do not have standardized meanings prescribed by IFRS. Therefore, EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See "Definitions of EBITDA, Adjusted EBITDA and Free Cash Flow" above. Management believes that EBITDA and Adjusted EBITDA are useful supplemental measures in evaluating performance of NFI.

(Unaudited, U.S. dollars in thousands)	March 31, 2013		December 30, 2012		January 1, 2012	
Selected Balance Sheet Data						
Total assets	$ 934,825		$ 897,224		$ 870,462	
Long-term financial liabilities	311,323		314,450		300,234	
Other Data (unaudited)		Equivalent Units[2]		Equivalent Units[2]		Equivalent Units[2]
Firm orders - USA	$ 810,936	1,774	$ 676,266	1,525	$ 585,517	1,305
Firm orders – Canada	53,320	125	64,578	147	72,390	171
Total firm orders	864,256	1,899	740,844	1,672	657,907	1,476
Options – USA	2,300,481	5,322	1,787,685	4,320	2,204,229	5,286
Options - Canada	131,291	306	145,090	333	139,275	335
Total options	2,431,772	5,628	1,932,775	4,653	2,343,504	5,621
Total backlog	$ 3,296,028	7,527	$ 2,673,619	6,325	$ 3,001,411	7,097

Equivalent Units in Backlog (unaudited)	**13 Weeks Ended March 31, 2013**		52 Weeks Ended December 30, 2012		52 Weeks Ended January 1, 2012	
	Firm orders	Options	Firm orders	Options	Firm orders	Options
Beginning of period	1,672	4,653	1,476	5,621	1,897	6,815
New orders	493	1,511	882	738	182	477
Options exercised	224	(224)	970	(970)	1,208	(1,208)
Shipments	(490)	—	(1,656)	—	(1,811)	—
Cancelled/expired	—	(312)	—	(736)	—	(463)
End of period	1,899[5]	5,628 [6]	1,672[5]	4,653 [6]	1,476	5,621

In 2013 Q1 a total of 312 option EUs expired. The maximum term for a contract permitted by the US Federal Transit Administration (the "FTA") is five years.

Remaining options included in the total backlog will expire, if not exercised, as follows:

2013 Q2	596
2013 Q3	459
2013 Q4	1,712 [6]
2013	2,767 [6]
2014	971
2015	503
2016	41
2017	545
2018	801
Total options	5,628[6]

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

(3) Net earnings (loss) per share (basic) have been retrospectively adjusted to reflect the 10:1 share consolidation that occurred on September 30, 2011.

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

(5) Included in the Company's total firm order backlog are 240 EUs under a major U.S. customer award. Based on discussions with this customer, it is uncertain whether any of these 240 EUs will enter the Company's production schedule in the near term or at all.

(6) Included in the Company's total option backlog are 1,560 option EUs under a major U.S. customer award. Based on discussions with this customer, it is uncertain whether any of these 1,560 option EUs will be exercised prior to their expected expiry in November 2013.

RECONCILIATION OF NET EARNINGS TO EBITDA AND ADJUSTED EBITDA

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

(Unaudited, U.S. dollars in thousands)	**13-Weeks Ended March 31, 2013**	13-Weeks Ended April 1, 2012 (*restated)	**52-weeks Ended March 31, 2013**	52-weeks Ended April 1, 2012 (*restated)
Net earnings	$ 3,513	$ 440	$ 12,363	$ 22,750
Addback[1]				
Income taxes	(371)	795	(443)	8,897
Interest expense	3,129	3,671	14,608	32,474
Amortization	6,292	6,022	24,596	24,313
Loss on disposal of property, plant and equipment	—	—	—	35
Fair value adjustment to embedded derivatives	—	1,395	—	6,215
Unrealized foreign exchange loss (gain) on non-current monetary items and forward foreign exchange contracts	225	959	669	(9,195)
EBITDA[2]	12,788	13,282	51,793	85,489
Costs associated with assessing strategic and corporate initiatives[7]	1,130	15	1,857	1,714
Loss on exercise of redemption right[5]	—	—	5,530	—
Loss on debt repurchase[6]	—	—	—	4,722
Past service pension costs [3]	—	1,762	—	1,762
Non-recurring costs relating to Orion parts business acquisition[9]	185	—	185	—
Realized (unrealized) investment tax credits[8]	1,273	877	900	(19,653)
Adjusted EBITDA[2]	$ 15,376	$ 15,936	$ 60,265	$ 74,034

RECONCILIATION OF CASH FLOW TO EBITDA AND ADJUSTED EBITDA

(Unaudited, U.S. dollars in thousands)	**13-Weeks Ended March 31, 2013**	13-Weeks Ended April 1, 2012 (*restated)	**52-weeks Ended March 31, 2013**	52-weeks Ended April 1, 2012 (*restated)
Net cash (used) generated by operating activities	$ (24,593)	$ 12,961	$ (32,031)	$ 24,928
Addback[1]				
Changes in non-cash working capital items	23,457	(6,093)	53,553	4,085
Defined benefit funding	2,040	1,671	7,705	5,408
Defined benefit expense	(657)	(2,989)	(1,972)	(4,354)
Interest paid	2,925	4,170	15,828	33,921
Loss on exercise of redemption right	—	—	(5,530)	—
Loss on debt repurchase	—	—	—	(4,722)
(Realized) unrealized investment tax credits	(1,273)	(877)	(900)	19,653
Foreign exchange gain on cash held in foreign currency	621	209	2,562	523
Income taxes paid [4]	10,268	4,230	12,578	6,047
EBITDA[2]	12,788	13,282	51,793	85,489
Costs associated with assessing strategic and corporate initiatives[7]	1,130	15	1,857	1,714
Loss on exercise of redemption right[5]	—	—	5,530	—
Loss on debt repurchase[6]	—	—	—	4,722
Past service pension costs [3]	—	1,762	—	1,762
Non-recurring transitional costs relating to Orion parts acquisition[9]	185	—	185	—
Realized (unrealized) investment tax credits[8]	1,273	877	900	(19,653)
Adjusted EBITDA[2]	$ 15,376	$ 15,936	$ 60,265	$ 74,034

(*) See Footnote 10 on page 13 of this MD&A and Note 2.4 and Note 6 to the Financial Statements.

Notes:

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

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

(3) On March 31, 2012 the Company signed a new collective bargaining agreement with the Canadian Auto Workers that included changes to the Company’s defined benefit pension plan. The effect of the pension plan amendments were to increase the accrued benefit liability and the expected annual pension plan expense in 2012 Q1 by $1,762 to reflect pension benefits provided to employees for past service.

(4) As a result of the Company’s multinational corporate structure, income taxes paid are subject to high degrees of volatility due to the mix of U.S. and Canadian earnings. 2013 Q1 income taxes paid includes a $8.0 million payment of NFI’s 2012 Canadian income tax liability and $1.2 million of Fiscal 2013 tax installments as compared to no required payments in 2012 Q1 and Fiscal 2012.

(5) Normalized to exclude the non-recurring loss on exercise of the redemption right option on the 14% Subordinated Notes.

(6) Normalized to exclude the non-recurring loss related to the repurchase of a portion the 14% Subordinated Notes.

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

(8) The Company recognizes ITCs in Adjusted EBITDA only during the period in which they are applied against income taxes payable.

(9) Normalized to exclude non-recurring expenses related to the acquisition of the Orion parts business.

SUMMARY OF FREE CASH FLOW

Management uses Free Cash Flow as a non-IFRS measure to enable investors and analysts to assess New Flyer's ability to pay dividends to common shareholders, service debt, and meet other payment obligations. Free Cash Flow is also a common measure of a company's valuation and liquidity.

The Company generates its Free Cash Flow from operations, and management expects this will continue to be the case for the foreseeable future. Net cash flows generated by operating activities are significantly impacted by changes in non-cash working capital. The Company has a revolving credit facility to finance working capital and therefore has excluded the impact of working capital in calculating Free Cash Flow. As well, net cash generated by operating activities and net earnings are significantly affected by the volatility of current income taxes, which in turn produces temporary fluctuations in the determination of Free Cash Flow.

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

(Unaudited, U.S. dollars in thousands)	**13-Weeks Ended March 31, 2013**	13-Weeks Ended April 1, 2012 (restated) [4,10]	**52-weeks Ended March 31, 2013**	52-weeks Ended April 1, 2012 (restated) [4,10]
Net cash (used) generated by operating activities	$ (24,593)	$ 12,961	$ (32,031)	$ 24,928
Changes in non-cash working capital items[3,4]	23,457	(6,093)	53,553	4,085
Interest paid[3]	2,925	4,170	15,828	33,921
Interest expense[3]	(2,929)	(3,605)	(13,877)	(31,193)
Income taxes paid (recovered)[3]	10,268	4,230	12,578	6,047
Current income tax expense[3,10]	(4,488)	(962)	(16,335)	(23,017)
Principal portion of finance lease payments	(708)	(645)	(2,481)	(2,699)
Cash capital expenditures [9]	(312)	(2,679)	(1,588)	(5,340)
Proceeds from sale of redundant assets	—	—	—	35
Past service costs [6]	—	1,762	—	1,762
Costs associated with assessing strategic and corporate initiatives[8]	1,130	15	1,857	1,714
Non-recurring transitional costs relating to Orion parts acquisition[11]	185	—	185	—
Defined benefit funding[4]	2,040	1,671	7,705	5,408
Defined benefit expense[4]	(657)	(2,989)	(1,972)	(4,354)
Foreign exchange gain on cash held in foreign currency[5]	621	209	2,562	523
Free Cash Flow (US$)[1]	6,939	8,045	25,984	11,820
U.S. exchange rate[2]	1.0147	0.9992	1.0033	0.9870
Free Cash Flow[1] (C$)	**7,041**	**8,039**	**26,834**	**11,666**
Free Cash Flow per Share (C$)[7]	0.1502	0.1811	0.5963	0.3949
Declared dividends on Shares (C$)	**6,971**	**9,542**	**30,510**	**30,694**
Declared dividend per Share (C$)[7]	$ 0.1487	$ 0.2150	$ 0.6780	$ 1.0391

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

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

(3) Changes in non-cash working capital are excluded from the calculation of Free Cash Flow as these temporary fluctuations are managed through the Company's $90.0 million revolving credit facility which is available for use to fund general corporate requirements including working capital requirements, subject to borrowing capacity restrictions. Changes in non-cash working capital is presented on the consolidated statement of cash flow net of interest and incomes taxes paid.

(4) The cash effect of the difference between the defined benefit expense and funding is included in the determination of cash from operating activities. This cash effect is excluded in the determination of Free Cash Flow as management believes that the defined benefit expense amount provides a more appropriate measure, as the defined benefit funding can be impacted by special payments to reduce the unfunded pension liability. The Company has adjusted amounts reported previously in the 2012 Q1 financial statements as a result of the retrospective application of the amendments to IAS 19, Employee Benefits. For details please refer to Note 2.4 of the Financial Statements.

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

(6) On March 31, 2012 the Company signed a new collective bargaining agreement with the Canadian Auto Workers that included changes to the Company's defined benefit pension plan. The effect of the pension plan amendments were to increase the accrued benefit liability and the expected annual pension plan expense in 2012 Q1 by $1,762 to reflect pension benefits provided to employees for past service.

(7) Per Share calculations for Free Cash Flow (C$) and declared dividends (C$) are determined by dividing these amounts by the total of all issued and outstanding Shares using the weighted average over the period. The weighted average number of Shares outstanding for 2013 Q1 was 46,868,898 and 45,001,527 for the 52 week period ended March 31, 2013. The weighted average number of Shares outstanding for 2012 Q1 was 44,379,070 and 29,538,077 for the 52 week period ended April 1, 2012.

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

(9) Cash capital expenditures do not include property, plant and equipment leased or purchased using funds borrowed from its delayed draw portion of the Credit Facility or included in the Orion parts business acquisition.

(10) Current income taxes have been restated to correct the previous recording of the benefit associated with utilizing loss carry forwards and deducting historical share issuance costs as a reduction of current income taxes. For more details see Note 6 of the Financial Statements. The following adjustments have been recorded:

(U.S. dollars in thousands)	2011 Q3	2011 Q4	**Fiscal 2011**	2012 Q1	2012 Q2	2012 Q3	2012 Q4	**Fiscal 2012**
Increase in current income tax expense	$ 1,077	$ 2,171	$ 3,248	$ 1,819	$ 206	$ 163	$ 158	$ 2,346

(11) Normalized to exclude non-recurring expenses related to the acquisition of the Orion parts business.

Dividend Policy

The Company's board of directors' (the "Board") intends to have a common share dividend policy that is consistent with New Flyer's financial performance and the desire to retain certain cash flows to support the ongoing requirements of the business and to provide the financial flexibility to pursue revenue diversification and growth opportunities.

On August 8, 2012, the Board set a new annual dividend rate of C$0.585 per Share effective for all dividends declared after that date. The Board expects to maintain these dividends on a monthly basis although such distributions are not assured indefinitely.

Compared to other common share issuers listed on the TSX, the Board believes this level of dividend provides investors with an attractive level of current income. The Board believes that this dividend level will enhance the financial flexibility of New Flyer to fund growth capital expenditures, acquisitions and other internal financing needs.

Currency Impact on the Company's Reported Results

The Financial Statements are presented in U.S. dollars. New Flyer operates in both the United States and Canada and, as a result, its combined reported results are impacted by fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar. However, the impact of changes in foreign exchange rates on the Company's reported results differs over time depending on whether the Company is generating a net cash inflow or outflow of Canadian dollars. This is largely dependent on the Company's revenue mix by currency as operating costs denominated in Canadian dollars have been relatively stable. Management's strategy is to mitigate foreign currency exposure based on net cash flow rather than Adjusted EBITDA.

As at March 31, 2013, 6.2% (December 30, 2012: 8.7%) of the Company's firm order backlog consisted of orders representing Canadian dollar-denominated revenue. Based on this current backlog position, the production schedule and the Company's historically stable Canadian dollar-denominated operating costs, management expects the Company to generate a net Canadian dollar net liability position

in Fiscal 2013. The Company managed the Canadian dollar net position during 2013 Q1 by purchasing $43.8 million of Canadian dollars (18 forward contracts).

The settlements of the forward contracts were recorded as realized foreign exchange gains or losses in net earnings for the reported periods as the Company has elected not to use hedge accounting. During 2013 Q1, the Company recorded realized foreign exchange gains of $0.3 million (2012 Q1: $0.2 million loss).

At March 31, 2013, the Company had $43.8 million foreign exchange forward contracts to buy Canadian dollars that range in expiry dates from April to December 2013, the related asset of $0.01 million (2012: $0.1 million liability) is recorded on the consolidated statements of financial position as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts has been recorded in the consolidated statements of profit or loss and other comprehensive income.

Fiscal and Interim Periods

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

	Period from December 31, 2012 to December 29, 2013 ("Fiscal 2013")		**Period from January 2, 2012 to December 30, 2012 ("Fiscal 2012")**	
	Period End Date	# of Weeks	Period End Date	# of Weeks
Quarter 1	March 31, 2013	13	April 1, 2012	13
Quarter 2	June 30, 2013	13	July 1, 2012	13
Quarter 3	September 29, 2013	13	September 30, 2012	13
Quarter 4	December 29, 2013	13	December 30, 2012	13
Fiscal year	December 29, 2013	52	December 30, 2012	52

Results of Operations

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

(U.S. dollars in thousands)	**2013 Q1 (13-Weeks)**	2012 Q1 (13-Weeks) (*restated)
Bus Manufacturing Revenue	$ 210,038	$ 196,233
Aftermarket Revenue	37,340	31,411
Total Revenue	$ 247,378	$ 227,644
Earnings from operations	6,496	7,260
Earnings before finance costs and income taxes	6,271	4,906
Earnings before income taxes	3,142	1,235
Net earnings for the period	3,513	440

(*) See Footnote 10 on page 13 of this MD&A and Note 2.4 and Note 6 to the Financial Statements.

Revenue

The Company achieved consolidated revenue for 2013 Q1 of $247.4 million, an increase of 8.7% from the consolidated revenue for 2012 Q1 of $227.6 million.

Revenue from bus manufacturing operations for 2013 Q1 was $210.0 million, which increased 7.0% compared to bus manufacturing revenue of $196.2 million in 2012 Q1. The increase in 2013 Q1 revenue primarily resulted from the increase in deliveries offset by a decrease in the average bus selling price during 2013 Q1 compared to 2012 Q1. The average selling price per EU in 2013 Q1 was $428.6

thousand compared to $444.0 thousand in 2012 Q1 and is attributed to a mix of products sold. Total bus deliveries of 490 EUs in 2013 Q1 increased 10.9% when compared to 2012 Q1 deliveries of 442 EUs. The increased deliveries were as a result of the Company being able to reduce the WIP levels by 22 EUs by delivering buses that were temporarily delayed at the end of 2012 Q4 due to a supplier quality issue. This resulted in WIP at the end of 2013 Q1 totaling 203 EUs. The delivery increase was also impacted by higher production rate (468 EUs line entered in 2013 Q1vs. 428 EUs in 2012 Q1).

The revenue from aftermarket operations in 2013 Q1 was $37.3 million compared to $31.4 million in 2012 Q1, which represents an increase of 18.9%. The increase in aftermarket operations revenue is primarily a result of increased volumes including incremental revenue of $5.0 million from the Orion parts business subsequent to the March 1, 2013 acquisition date.

Cost of sales

The consolidated cost of sales for 2013 Q1 of $226.2 million increased by 8.4% from 2012 Q1 consolidated cost of sales of $208.6 million.

Costs of sales from bus manufacturing operations consist of direct contract costs and manufacturing overhead. The cost of sales from bus manufacturing operations for 2013 Q1 were $197.8 million compared to $185.8 million in 2012 Q1, an increase of 6.5%. This increase in cost of sales primarily relates to 10.9% more deliveries in 2013 Q1 as compared to 2012 Q1, offset by the reduction of material costs and manufacturing overhead achieved through Operational Excellence. As well, 2012 Q1 costs of sales from bus manufacturing operations were negatively impacted by an increase $1.8 million in past service pension expense when comparing the two periods.

The cost of sales from aftermarket operations was $28.4 million in 2013 Q1 compared to $22.8 million in 2012 Q1, representing an increase of 24.5% primarily as a result of the increase in sales volumes and a higher general percentage of cost of sales due to pricing pressures.

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

The consolidated SG&A for 2013 Q1 of $15.0 million increased 29.4% compared with $11.6 million in 2012 Q1. The increase in 2013 Q1 SG&A is primarily a result of $1.1 million of incremental costs to explore and assess strategic and corporate initiatives, $0.6 million of SG&A expenses for the recently acquired Orion parts business and $1.0 million of increased expenses relating to the long-term incentive plan due to appreciation in stock price.

Realized foreign exchange loss (gain)

In 2013 Q1, the Company recognized a net realized gain of $0.3 million compared with a net realized loss of $0.2 million in 2012 Q1. The increase in realized foreign exchange gain is primarily as a result of realization of foreign exchange gains on working capital accounts.

Earnings from operations

The consolidated earnings from operations for 2013 Q1 in the amount of $6.5 million (2.6% of revenue) decreased compared to earnings from operations in 2012 Q1 of $7.3 million (3.2% of revenue).

The earnings from bus manufacturing operations for 2013 Q1 were $2.3 million compared to earnings from bus operations of $1.6 million for 2012 Q1 (1.1% and 0.8%, respectively, of bus manufacturing revenue).

The earnings from aftermarket operations of $5.3 million in 2013 Q1 decreased by 7.9% compared to 2012 Q1 earnings of $5.7 million. 2013 Q1 aftermarket operations margin of 14.7% decreased as compared to 18.3% in 2012 Q1. The decrease is primarily due to the general tightening of margins during the period offset by increased volumes.

Unallocated loss from operations in 2013 Q1 included $1.1 million of costs associated with assessing strategic and corporate initiatives as compared to no such costs in 2012 Q1.

Unrealized foreign exchange loss

In 2013 Q1, the Company recognized a net unrealized loss of $0.2 million compared to a net unrealized loss of $1.0 million in 2012 Q1. These results consist of the following:

(Unaudited, U.S. dollars in thousands)	2013 Q1	2012 Q1
Unrealized loss on Canadian–denominated long-term debt	$ —	$ 1,124
Unrealized (gain) loss on forward foreign exchanges contracts	(16)	114
Unrealized loss (gain) on other non-monetary assets/liabilities	241	(279)
	$ 225	$ 959

Earnings before finance costs and income taxes ("EBIT")

In 2013 Q1, the Company recorded EBIT of $6.3 million compared to EBIT of $4.9 million in 2012 Q1. EBIT has been impacted by non-cash and non-recurring items as follows:

(Unaudited, U.S. dollars in thousands)	2013 Q1	2012 Q1
Non-cash and non-recurring charges (recovery):		
Costs associated with assessing strategic and corporate initiatives	$ 1,130	$ 15
Fair value adjustment to embedded derivatives	—	1,395
Unrealized foreign exchange loss	225	959
Past service pension costs	—	1,762
Non-recurring costs relating to Orion parts business acquisition	185	—
Amortization	6,292	6,022
Total non-cash and non-recurring charges:	$ 7,832	$ 10,153

Absent these non-cash charges/recoveries, the 2013 Q1 EBIT would have been $14.1 million compared to $15.1 million in 2012 Q1.

Finance costs

The finance costs for 2013 Q1 were $3.1 million, which decreased 14.8% when compared to $3.7 million in 2012 Q1. The decrease primarily results from the decrease of $1.0 million of interest on long-term debt during 2013 Q1 due to the repurchase of C$57.8 million of 14% subordinated notes in August, 2012 offset by $65.0 million issuance of 6.25% Debentures.

Earnings before income taxes

Earnings before income taxes for 2013 Q1 were $3.1 million compared to earnings before income taxes of $1.2 million in 2012 Q1. The difference in the earnings before income taxes between these periods results from the non-cash and non-recurring charges as described in the preceding table.

Income tax expense (recovered)

The income tax recovered for 2013 Q1 was $0.4 million, consisting of $4.5 million of current income tax expense and $4.9 million of deferred income tax expense recovered. In comparison, the income tax expense for 2012 Q1 was $0.8 million, which consisted of $1.0 million of current income tax expense and $0.2 million of deferred income tax expense recovered. Increase in current taxes when comparing the two periods is a result of recording a tax benefit relating to a tax loss being carried back and applied to prior year's Canadian taxable income in 2012 Q1.

Net earnings

The Company reported net earnings of $3.5 million in 2013 Q1 compared to net earnings of $0.4 million in 2012 Q1. The increase in net earnings in 2013 Q1 is primarily attributable to the increase in earnings before income taxes and the decrease in income taxes as

noted above. The Company's net earnings can be subject to a high degree of volatility from one fiscal period to the next as a result of non-cash and non-recurring charges and income taxes.

Cash Flow

The cash flows of the Company are summarized as follows:

(Unaudited, U.S. dollars in thousands)	2013 Q1	2012 Q1
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	$ 12,057	$ 15,268
Interest paid	(2,925)	(4,170)
Income taxes paid	(10,268)	(4,230)
Net cash earnings (loss)	(1,136)	6,868
Changes in non-cash working capital items	(23,457)	6,093
Cash flow from operating activities	(24,593)	12,961
Cash flow from financing activities	51,551	(12,134)
Cash flow from investing activities	$ (32,129)	$ (3,660)

Cash flows from operating activities

The 2013 Q1 net operating cash outflow of $24.6 million is the result of $1.1 million of net cash loss and an increase in non-cash working capital of $23.5 million, compared to 2012 Q1 net operating cash inflow of $13.0 million which is the result of $6.9 million of net cash earnings and a decrease of $6.1 million in non-cash working capital. The non-cash working capital changes during 2013 Q1 that are primarily responsible for the significant outflow during the period are due to increased accounts receivables due to timing of collections and deliveries when comparing the two periods.

Cash flow from financing activities

The Company's financing activities resulted in a net cash inflow of $51.6 million and a net cash outflow of $13.0 million for 2013 Q1 and 2012 Q1, respectively. The cash inflow during 2013 Q1 primarily relates to $51.4 million of cash received from Shares issued to Marcopolo. The cash outflow during 2012 Q1 primarily relates to the repayment of $2.0 million of the secured revolving credit facility and used $9.5 million for dividends. The dividend rate was decreased to C$0.585 in August 2012 from C$0.86.

Cash flow from investing activities

2013 Q1 investing activities resulted in a net cash outflow of $32.1 million compared to $3.7 million in 2012 Q1. The Company's investing activities for 2013 Q1 included a $20.6 million investment to acquire the Orion parts business, purchase of $5.9 million in Orion accounts receivables and a $5.0 million worldwide license with Power Brake, LLC. The license grants New Flyer the exclusive right to sell brakes and brake components for transit bus application that have been treated with Power Brake's technology designed to extend brake life and reduce maintenance costs. Brakes and brake components treated with the Power Brake technology will be sold by New Flyer under its Xtended Life™ branded product line. The initial license is for a five-year term with renewable one-year terms.

The composition of the property, plant and equipment capital ("PPE") expenditures was as follows:

(Unaudited, U.S. dollars in thousands)	2013 Q1	2012 Q1
PPE expenditures	$ 1,013	$ 3,660
Less PPE expenditures funded as part of Orion parts business	(394)	—
Less PPE expenditures funded by capital leases	(92)	—
Acquisition of PPE reported on statement of cash flows	527	3,659
Less PPE expenditures funded by senior term loan for asset acquisitions	(215)	(981)
Cash PPE expenditure	312	2,679
Comprised of:		
Maintenance PPE expenditures	88	307
Growth PPE expenditures	224	2,372
	312	2,679

Liquidity and Capital Resources

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

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

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

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

The Company generated Free Cash Flow of C$7.0 million during 2013 Q1 while declaring dividends of C$7.0 million as compared to Free Cash Flow of C$8.0 million during 2012 Q1 while declaring dividends of C$9.5 million. Management believes that sufficient Free Cash Flow will be generated to maintain the current dividend rate.

During 2013 Q1, the Company decreased its cash by $4.6 million primarily due to increased investment in non-cash working capital items, such as increased accounts receivable and income taxes recoverable which offset the net cash retained after investing in Orion's parts business with a portion of the cash received from Marcopolo's investment in NFI.

The liquidity position as at March 31, 2013 of $33.4 million is comprised of cash of $6.6 million and $26.8 million of available secured revolving credit facility. As at March 31, 2013, there were $48.7 million of direct borrowings and $14.5 million of outstanding letters of credits related to the $90.0 million of secured revolving credit. Management believes that these funds will provide the Company with sufficient liquidity and capital resources to meet its current and future financial obligations as they come due, as well as provide funds for its financing requirements, capital expenditures and other needs for the foreseeable future.

There are certain financial covenants under the Credit Facility that must be maintained. These financial covenants include an interest coverage ratio and total leverage ratio. At March 31, 2013, the Company is in compliance with the ratios.

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

	March 31, 2013	December 30, 2012
Total Leverage Ratio (must be less than 3.25)	2.78	2.52
Interest Coverage Ratio (must be greater than 3.00)	4.34	4.23

Interest rate risk

In connection with the Credit Facility, the Company has an interest rate swap designed to hedge floating rate exposure to manage interest rate risk relating to potentially adverse changes in the LIBOR rate on $90.0 million out of the $122.0 million of the drawn term credit facility. The interest rate swap fixes the interest rate at 1.90% plus the applicable interest margin until April 2014. The fair value of the interest rate swap liability of $1.6 million at March 31, 2013 (December 30, 2012: $2.0 million) was recorded on the consolidated statements of financial position as a derivative financial instruments liability and the change in fair value has been recorded as finance costs for the reported period.

Credit risk

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

for accounts receivables corresponds to their book value. Historically, the Company has experienced nominal bad debts as a result of the customer base being principally comprised of municipal and other local transit authorities.

The carrying amount of accounts receivable is reduced through the use of an allowance account and the amount of the loss is recognized in the earnings statement within SG&A. When a receivable balance is considered uncollectible, it is written off against the allowance for accounts receivable. Subsequent recoveries of amounts previously written off are credited against SG&A in the consolidated statements of profit or loss and other comprehensive income.

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

		March 31, 2013		December 30, 2012
Current, including holdbacks	$	134,223	$	104,759
Past due amounts but not impaired				
1 – 60 days		10,302		6,251
Greater than 60 days		603		2,525
Less: allowance for doubtful accounts		(67)		(75)
Total accounts receivables, net	$	145,061	$	113,460

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

Commitments and Contractual Obligations

Commitments

The following table outlines the Company's maturity analysis of the undiscounted cash flows of certain non-current financial liabilities and leases as at March 31, 2013:

US dollars in thousands		**Total**		**2013**		**2014**		**2015**		**2016**		**2017**		**Post 2017**
Senior term loan	$	127,250	$	3,750	$	123,500	$	—	$	—	$	—	$	—
Convertible debentures		83,279		4,062		4,062		4,062		4,062		67,031		—
Finance leases		3,790		1,238		1,215		575		473		244		45
Operating leases		25,397		2,232		2,235		1,784		1,821		1,859		15,466
	$	239,716	$	11,282	$	131,012	$	6,421	$	6,356	$	69,134	$	15,511

As at March 31, 2013, outstanding surety bonds guaranteed by the Company amounted to $114.6 million, representing an increase compared to $52.0 million at December 30, 2012. The estimated maturity dates of the surety bonds outstanding at March 31, 2013 range from April 2013 to June 2015.

The Company has not recorded a liability under these guarantees, as management believes that no material events of default exist under any applicable contracts with customers.

Under the Credit Facility, the Company has established a letter of credit sub-facility of $55.0 million. As at March 31, 2013, letters of credit amounting to $14.5 million (December 30, 2012: $14.2 million) remained outstanding under the letter of credit facility as security for the contractual obligations of the Company.

Stock Option Plan

On March 21, 2013, the Board adopted a Share Option Plan (the "Option Plan") for NFI, under which employees of NFI and certain of its affiliates ("participants") may receive grants of share options. Directors who are not employed with NFI are not eligible to participate in the Option Plan. A maximum of 3,600,000 Shares will be available for issuance under the Option Plan. Also on March 21, 2013, the Board approved grants of an aggregate of 490,356 share options (the "Options") to eleven executives, effective March 26, 2013.

In accordance with the policies of the TSX, NFI is required to submit the Option Plan for approval by NFI's shareholders and the ratification of the grant of the Options at the annual general meeting on May 9, 2013. If approved, the Option Plan will be effective as

of March 21, 2013, and the grant of the Options will be effective on March 26, 2013. The Options will expire on March 26, 2021. All of the Options have been granted to insiders. These Options cannot be exercised until such time that NFI has obtained shareholder approval of the Option Plan and the grants have been ratified by shareholders. The Options will be cancelled if shareholders do not approve the Option Plan and do not ratify these grants.

Standards recently adopted

IAS 19 (Revised 2011) Employee Benefits:

The main changes to the standard are the elimination of the corridor approach (with all changes to the defined benefit obligation and plan assets recognized when they occur) and calculation of net interest using a high quality corporate bond yield. Retrospective application is required with certain exceptions, effective January 1, 2013. As a result of the retrospective application, the following are the impacts on the Company's net earnings and total comprehensive income for 2012 Q1.

A statement of financial position as at January 1, 2012 is included as a result of the Company's retrospective application of the amendments to IAS 19, Employee Benefits.

IFRS 7 Financial Instruments: Disclosures, Amendment regarding Disclosures with respect to Offsetting:

The disclosure requirements have also been amended with respect to offsetting financial assets and financial liabilities to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. Retrospective application is required for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. There was no material impact to the financial statements as a result of adopting this standard.

IFRS 13 Fair Value Measurement:

IFRS 13 establishes a single framework for fair value measurement as required by other IFRS standards and is applicable to both financial and non-financial items that are required or permitted by other standards to be measured at fair value, effective January 1, 2013. Prospective application is required. There was no material impact to the financial statements as a result of adopting this standard.

IAS 1 (Revised 2011) Presentation of Financial Statements:

Disclosure of other comprehensive income items between those that are recycled to profit or loss and those not recycled is required with retrospective application, effective for years beginning on or after July 1, 2012. There was no material impact to the financial statements as a result of adopting this standard.

IFRS 10 Consolidated Financial Statements:

The new standard uses control as the single basis of consolidation for all entities with three elements to control: power over an investee; exposure or rights to variable returns; and the ability to affect returns. Retrospective application is required, subject to certain transitional provisions, effective January 1, 2013. There was no material impact to the financial statements as a result of adopting this standard.

IFRS 11 Joint Arrangements:

The new standard classifies arrangements as either joint operations or joint ventures. All interests in joint ventures should now be accounted for based on the equity method. Transitional provisions vary depending on how an interest is classified under IAS 31, effective January 1, 2013. There was no material impact to the financial statements as a result of adopting this standard.

IFRS 12 Disclosure of Interest in Other Entities:

IFRS 12 requires extensive disclosure relating to an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structure entities. There was no material impact to the financial statements as a result of adopting this standard.

IAS 28 (as amended 2011) Investments in Associates:

The amended IAS 28 (2011) provides detailed guidance on the application of the equity method to associates, subsidiaries and joint ventures (previously excluded from this standard), effective January 1, 2013. There was no material impact to the financial statements as a result of adopting this standard.

Future Changes to Accounting Standards

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

IFRS 9 Financial Instruments:

This standard replaces the current IAS 39 Financial Instruments Recognition and Measurement. The Company will start the application of IFRS 9 in the financial statements effective January 1, 2015. Management has not yet evaluated the impact of adoption of this standard on the financial statements.

Controls and Procedures

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining internal controls over financial reporting ("ICFR"), as defined under rules adopted by the Canadian Securities Administrators. ICFR were designed under the supervision of, and with the participation of, the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). The Company's ICFR are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management, under the supervision of the CEO and CFO, evaluated the design of the Company's ICFR as of December 30, 2012 in accordance with the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and concluded that the Company's ICFR are effective.

Management believes there have been no changes in the Company's ICFR during 2013 Q1 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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

Disclosure Controls

Management is responsible for establishing and maintaining disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner and that information required to be disclosed is reported within time periods prescribed by applicable securities legislation. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. The Company's CEO and CFO have concluded that disclosure controls and procedures as at December 30, 2012 were effective.

Interim Condensed Consolidated Financial Statements of

NEW FLYER INDUSTRIES INC.

March 31, 2013

(Unaudited)

TABLE OF CONTENTS

	Page #
Unaudited interim Condensed Consolidated Statements of Profit or Loss and Total Comprehensive Income	1
Unaudited interim Condensed Consolidated Statements of Financial Position	2
Unaudited interim Condensed Consolidated Statement of Changes in Equity	3
Unaudited interim Condensed Consolidated Statements of Cash Flows	4
Notes to Unaudited interim Condensed Consolidated Financial Statements	5 - 18

NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND TOTAL COMPREHENSIVE INCOME
March 31, 2013
(unaudited, in thousands of U.S. dollars except per share figures)

		13-Weeks Ended March 31, 2013 ("2013 Q1")		13-Weeks Ended April 1, 2012[1] ("2012 Q1")
Revenue (note 14)	$	247,378	$	227,644
Cost of sales (note 4)		226,222		208,646
Gross profit		21,156		18,998
Sales, general and administration costs and other operating expenses		14,948		11,552
Foreign exchange (gain) loss (note 13b)		(288)		186
Earnings from operations		6,496		7,260
Unrealized foreign exchange loss on non-current monetary items		225		959
Fair value adjustment to embedded derivatives		—		1,395
Earnings before finance costs and income taxes		6,271		4,906
Finance costs				
Interest on long-term debt		2,117		3,087
Accretion in carrying value of long-term debt		568		118
Other interest and bank charges		812		518
Fair value adjustment on interest rate swap		(368)		(52)
		3,129		3,671
Earnings before income tax expense		3,142		1,235
Income tax (recovered) expense (note 6)				
Current income taxes		4,488		962
Deferred income taxes (recovered)		(4,859)		(167)
		(371)		795
Net earnings for the period	$	3,513	$	440
Other comprehensive income for the period, net of tax				
Actuarial gain on defined benefit pension plan- this item will not be reclassified subsequently to profit or loss		—		388
Total comprehensive income for the period		3,513		828
Net earnings per share (basic) (note 2.4, 10)	$	0.08	$	0.01
Net earnings per share (diluted) (note 2.4, 10)	$	0.08	$	0.01

[1] In preparing the 2012 Q1 comparative information, the Company has adjusted amounts reported previously in the interim condensed consolidated financial statements as a result of the retrospective application of the amendments to IAS 19, Employee Benefits. Refer to note 2.4 for details regarding adjusted amounts. Also see note 6 regarding 2012 Q1 income tax restatement.

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

NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

March 31, 2013

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

	March 31, 2013	December 30, 2012	January 1, 2012 (note 2.4)
Assets			
Current			
Cash	$ 6,632	$ 11,182	$ 10,133
Accounts receivable (note 3,13d)	145,061	113,460	115,850
Income taxes recoverable	682	—	—
Inventories (note 4)	125,394	124,712	93,491
Derivative financial instruments (note 13b,c)	2	—	145
Prepaid expenses and deposits	5,586	4,724	5,077
	283,357	254,078	224,696
Property, plant and equipment	41,070	42,024	37,397
Embedded derivative instruments	—	—	3,684
Unused investment tax credits	21,989	23,262	23,766
Deferred tax assets (note 6)	51,023	49,332	36,558
Goodwill and intangible assets (note 5)	537,386	528,528	544,361
	$ 934,825	$ 897,224	$ 870,462
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 149,843	$ 150,828	$ 152,207
Income taxes payable	—	6,756	4,964
Deferred revenue	12,583	19,190	1,897
Provision for warranty costs (note 16)	19,732	20,106	32,808
Current portion of long-term debt (note 7)	48,748	40,035	9,000
Derivative financial instruments (note 13b,c)	—	14	—
Current portion of deferred compensation obligation	—	—	1,404
Current portion of obligations under finance leases	1,418	1,857	2,377
	232,324	238,786	204,657
Accrued benefit liability	7,435	8,973	9,136
Obligations under finance leases	2,081	2,314	2,102
Deferred compensation obligation	2,559	1,233	262
Deferred tax liabilities (note 6)	119,362	122,244	119,088
Long-term debt (note 7)	121,142	120,950	166,835
Convertible debentures (note 8)	57,136	56,760	—
Derivative financial instruments (note 13b, c)	1,608	1,976	2,811
	543,647	553,236	504,891
Commitments and contingencies (note 15)			
Shareholders' equity			
Share capital (note 9)	527,465	476,918	476,918
Equity component of convertible debentures (note 8)	3,841	3,841	—
Accumulated other comprehensive loss	(6,490)	(6,490)	(4,851)
Deficit	(133,638)	(130,281)	(106,496)
	391,178	343,988	365,571
	$ 934,825	$ 897,224	$ 870,462

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

Authorized for issue by the board of directors on May 8, 2013.

NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

March 31, 2013

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

	Share Capital	Equity Component of Convertible Debentures (note 8)	Accumulated Other Comprehensive Loss	Deficit	Total Shareholders' Equity
Balance, January 1, 2012, previously stated	$ **476,918**	$ **—**	$ —	$ **(111,347)**	$ **365,571**
IAS 19 retrospective application [1]			(4,851)	4,851	
Balance, January 1, 2012, restated	**476,918**	**—**	**(4,851)**	**(106,496)**	**365,571**
Net earnings for the period [1]	—	—	—	440	440
Other comprehensive income for the period [1]	—	—	388	—	388
Dividends declared on common shares	—	—	—	(9,550)	(9,550)
Balance, April 1, 2012	**476,918**	—	**(4,463)**	**(115,606)**	**356,849**
Net earnings for the period	—	—	—	8,850	8,850
Other comprehensive loss for the period	—	—	(2,027)	—	(2,027)
Dividends declared on common shares	—	—	—	(23,525)	(23,525)
Equity component of convertible debentures (net of tax $1,421)	—	3,841	—	—	3,841
Balance, December 30, 2012	**476,918**	**3,841**	**(6,490)**	**(130,281)**	**343,988**
Net earnings for the period	—	—	—	3,513	3,513
Dividends declared on common shares	—	—	—	(6,870)	(6,870)
Shares issued	51,404	—	—	—	51,404
Share issuance costs (net of tax $326)	(857)	—	—	—	(857)
Balance, March 31, 2013	$ **527,465**	$ **3,841**	$ **(6,490)**	**(133,638)**	**391,178**

[1] In preparing the 2012 Q1 comparative information, the Company has adjusted amounts reported previously in the interim condensed consolidated financial statements as a result of the retrospective application of the amendments to IAS 19, Employee Benefits. Refer to note 2.4 for details regarding adjusted amounts. Also see note 6 regarding 2012 Q1 income tax restatement.

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

NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

March 31, 2013

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

	13-Weeks Ended March 31, 2013	13-Weeks Ended April 1, 2012[1]
Cash generated from (used in)		
Operating activities		
Net earnings for the period	$ 3,513	$ 440
Income tax (recovered) expense	(371)	795
Depreciation of plant and equipment	1,970	2,024
Amortization of intangible assets	4,322	3,998
Finance costs recognized in profit or loss	3,129	3,671
Unrealized foreign exchange loss on non-current monetary items	225	959
Foreign exchange gain on cash held in foreign currency	(621)	(209)
Fair value adjustment to embedded derivatives	—	1,395
Realized investment tax credits	1,273	877
Defined benefit expense	657	2,989
Defined benefit funding	(2,040)	(1,671)
Cash generated from operating activities before non-cash working capital items and interest and income taxes paid	12,057	15,268
Changes in non-cash working capital items (note 11)	(23,457)	6,093
Cash generated from operations before interest and income taxes paid	(11,400)	21,361
Interest paid	(2,925)	(4,170)
Income taxes paid	(10,268)	(4,230)
Net cash (used in) generated from operating activities	(24,593)	12,961
Financing activities		
Repayment of obligations under finance leases	(708)	(645)
Share issuance	51,404	—
Costs associated with share issuance	(1,183)	—
Proceeds from issuance (repayment) of long-term debt	8,713	(2,000)
Dividends paid	(6,675)	(9,489)
Net cash generated from (used in) financing activities	51,551	(12,134)
Investing activities		
Acquisition of Orion aftermarket parts business (note 1.2)	(20,608)	—
Acquisition of accounts receivables connected with purchase of Orion aftermarket parts business (note 1.2)	(5,920)	—
Acquisition of intangibles assets	(5,074)	
Acquisition of property, plant and equipment	(527)	(3,660)
Net cash used in investing activities	(32,129)	(3,660)
Effect of foreign exchange rate on cash	621	209
Decrease in cash	(4,550)	(2,624)
Cash — beginning of period	11,182	10,133
Cash — end of period	$ 6,632	$ 7,509

[1] In preparing the 2012 Q1 comparative information, the Company has adjusted amounts reported previously in the interim condensed consolidated financial statements as a result of the retrospective application of the amendments to IAS 19, Employee Benefits. Refer to note 2.4 for details regarding adjusted amounts. Also see note 6 regarding 2012 Q1 income tax restatement.

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

1. CORPORATE INFORMATION

New Flyer Industries Inc. ("NFI" or the "Company") was incorporated on June 16, 2005 under the laws of the Province of Ontario. The Company is the manufacturer of the New Flyer branded heavy-duty transit buses. The business also includes aftermarket parts and support including the sale of bus parts.

The Company's common shares (the "Shares") are listed on the Toronto Stock Exchange ("TSX") under the symbol "NFI" and the Company's 6.25% convertible unsecured subordinated debentures (the "Debentures") are listed on the TSX under the symbol "NFI.DB.U".

These unaudited interim condensed consolidated financial statements (the "Statements") were approved by the Company's board of directors on May 8, 2013.

1.1 Equity investment by Marcopolo

On January 23, 2013, Marcopolo S.A. ("Marcopolo") entered into an agreement with the Company to make a strategic investment of approximately C$116.0 million to acquire 11,087,834 newly issued Shares, representing a 19.99% stake in the Company. Each Share will be issued at a price of C$10.50 per Share, or an approximate 20% premium to the 30 day volume-weighted average trading price of the Shares on the TSX for the period ending January 23, 2013. 4,925,530 Shares were issued to a wholly-owned Canadian subsidiary of Marcopolo on February 15, 2013 for aggregate consideration of C$51.7 million with the remainder of the Shares to be issued to Marcopolo at the same price per Share in one tranche on or prior to February 15, 2014 as determined by the Company based on its investment and financing needs and in certain other circumstances.

1.2 Acquisition of Orion aftermarket parts business

On March 1, 2013, New Flyer Industries Canada ULC ("NFI ULC") acquired from Daimler Buses North America Inc. ("DBNA") certain assets and assumed customer and supplier contracts relating to the Orion aftermarket parts business for heavy-duty transit buses. The cash acquisition price was approximately $20.6 million. NFI ULC also purchased approximately $5.9 million of accounts receivables, with any uncollectible amounts being fully guaranteed by DBNA. The purchase price was funded by the proceeds from the equity investment by Marcopolo. The acquisition has been accounted for using the acquisition method. The fair values of the identifiable assets acquired have been based on management's best estimates and valuation techniques as at March 1, 2013 (the "Acquisition Date").

Cash purchase price	$	20,608
Inventory		12,108
Equipment		394
Tangible assets acquired		12,502
License of Orion branded proprietary parts		908
Customer contracts and customer relationships		6,121
Identifiable intangible assets acquired		7,029
Goodwill acquired	$	1,077

The goodwill acquired is largely a result of the synergies and economies of scale expected from combining the operations of NFI and the Orion parts business. This goodwill is expected to be deductible for tax purposes.

The estimated purchase price allocation remains subject to adjustments that could arise as a result of new information that would impact the determination of fair value of the inventory, equipment and intangible assets.

During the 30 days since the Acquisition Date, the Orion parts business produced revenues of approximately $5.0 million and net earnings of approximately $0.6 million have been recorded in the unaudited interim condensed consolidated statement profit or loss and total comprehensive income for the 13 week period ending March 31, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Statements are the same, except for the recently adopted IFRS standards as described in note 2.4., as those applied by the Company in its consolidated financial statements as at and for the 52-week period ended December 30, 2012. These Statements should be read in conjunction with the Company's consolidated financial statements as at and for the 52-week period ended December 30, 2012.

2.1 Statement of Compliance

The Statements are unaudited and have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all the information required for full annual financial statements.

2.2 Basis of preparation

The Statements were prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS") which requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates.

In preparing these Statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied by the Company in its consolidated financial statements as at and for the 52-week period ended December 30, 2012.

2.3 Principles of consolidation

The Statements include the accounts of all of its subsidiaries: New Flyer Holdings, Inc. ("NFL Holdings"), Transit Holdings, Inc. ("THI"), New Flyer of America Inc. ("NFAI"), NFI ULC, 1176846 Alberta ULC and TCB Enterprises, LLC.

2.4 Standards recently adopted

IAS 19 (Revised 2011) Employee Benefits:

The main changes to the standard are the elimination of the corridor approach (with all changes to the defined benefit obligation and plan assets recognized when they occur) and calculation of net interest using a high quality corporate bond yield. Retrospective application is required with certain exceptions, effective January 1, 2013. As a result of the retrospective application, the following are the impacts on the Company's net earnings and total comprehensive income for 2012 Q1.

Net earnings and total comprehensive income impact		13-weeks Ended April 1, 2012
Increase in cost of sales	$	(750)
Decrease in income taxes		282
Decrease in net earnings		(468)
Decrease in other comprehensive loss		750
Tax impact of decrease in other comprehensive loss		(282)
Impact on total comprehensive loss		—
Decrease in net earnings per share (basic and diluted)		(0.04)

A statement of financial position as at January 1, 2012 is included as a result of the Company's retrospective application of the amendments to IAS 19, Employee Benefits.

IFRS 7 Financial Instruments: Disclosures, Amendment regarding Disclosures with respect to Offsetting:
The disclosure requirements have also been amended with respect to offsetting financial assets and financial liabilities to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. Retrospective application is required for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. There was no material impact to the financial statements as a result of adopting this standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS 13 Fair Value Measurement:

IFRS 13 establishes a single framework for fair value measurement as required by other IFRS standards and is applicable to both financial and non-financial items that are required or permitted by other standards to be measured at fair value, effective January 1, 2013. Prospective application is required. There was no material impact to the financial statements as a result of adopting this standard.

IAS 1 (Revised 2011) Presentation of Financial Statements:

Disclosure of other comprehensive income items between those that are recycled to profit or loss and those not recycled is required with retrospective application, effective for years beginning on or after July 1, 2012. There was no material impact to the financial statements as a result of adopting this standard.

IFRS 10 Consolidated Financial Statements:

The new standard uses control as the single basis of consolidation for all entities with three elements to control: power over an investee; exposure or rights to variable returns; and the ability to affect returns. Retrospective application is required, subject to certain transitional provisions, effective January 1, 2013. There was no material impact to the financial statements as a result of adopting this standard.

IFRS 11 Joint Arrangements:

The new standard classifies arrangements as either joint operations or joint ventures. All interests in joint ventures should now be accounted for based on the equity method. Transitional provisions vary depending on how an interest is classified under IAS 31, effective January 1, 2013. There was no material impact to the financial statements as a result of adopting this standard.

IFRS 12 Disclosure of Interest in Other Entities:

IFRS 12 requires extensive disclosure relating to an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structure entities. There was no material impact to the financial statements as a result of adopting this standard.

IAS 28 (as amended 2011) Investments in Associates:

The amended IAS 28 (2011) provides detailed guidance on the application of the equity method to associates, subsidiaries and joint ventures (previously excluded from this standard), effective January 1, 2013. There was no material impact to the financial statements as a result of adopting this standard.

2.5 Standards issued but not yet adopted

IFRS 9 Financial Instruments:

This standard replaces the current IAS 39 Financial Instruments Recognition and Measurement. The Company will start the application of IFRS 9 in the financial statements effective January 1, 2015. Management has not yet evaluated the impact of adoption of this standard on the financial statements.

2.6 Fiscal periods

The Company's 2013 fiscal period is divided in quarters as follows:

	Period from December 31, 2012 to December 29, 2013 ("Fiscal 2013")		**Period from January 2, 2012 to December 30, 2012 ("Fiscal 2012")**	
	Period End Date	# of Weeks	Period End Date	# of Weeks
Quarter 1	March 31, 2013	13	April 1, 2012	13
Quarter 2	June 30, 2013	13	July 1, 2012	13
Quarter 3	September 29, 2013	13	September 30, 2012	13
Quarter 4	December 29, 2013	13	December 30, 2012	13
Fiscal year	December 29, 2013	52	December 30, 2012	52

3. ACCOUNTS RECEIVABLE

	March 31, 2013	December 30, 2012
Trade	$ 139,735	$ 108,635
Other	5,326	4,825
	$ 145,061	$ 113,460

4. INVENTORIES

	March 31, 2013	December 30, 2012
Raw materials	$ 71,689	$ 59,338
Work in process	52,508	62,753
Finished goods	1,197	2,621
	$ 125,394	$ 124,712

	13-weeks Ended March 31, 2013	13-weeks Ended April 1, 2012
Cost of inventories recognized as expense and included in cost of sales	$ 206,744	$ 193,215
Write-down of inventory to net realizable value in cost of sales	230	358

5. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Trade names	Patents and Licenses	Customer relationships	Total
December 30, 2012 net book value	$ 202,168	$ 154,200	$ 54,799	$ 117,361	$ 528,528
Additions (note 1.2 and below)	1,077	—	5,982[(1)]	6,121	13,180
Amortization charge	—	—	(2,376)	(1,946)	(4,322)
March 31, 2013 net book value	$ 203,245	$ 154,200	$ 58,405	$ 121,536	$ 537,386
Recorded as:					
Cost	$ 203,245	$ 154,200	$ 106,487	$ 164,821	$ 628,753
Accumulated amortization	—	—	48,082	43,285	91,367
March 31, 2013 net book value	$ 203,245	$ 154,200	$ 58,405	$ 121,536	$ 537,386

(1) Amount includes a $5.0 million license and service agreement with Power Brake, LLC signed on December 31, 2012. The worldwide license grants New Flyer the exclusive right to sell brakes and brake components for transit bus application that have been treated with Power Brake's technology designed to extend brake life and reduce maintenance costs. Brakes and brake components treated with the Power Brake technology will be sold by New Flyer's aftermarket operations under its Xtended Life™ branded product line. The initial license is for a five-year term with renewable one-year terms.

6. DEFERRED TAXES AND INCOME TAX EXPENSE

	March 31, 2013	December 30, 2012
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	$ 43,728	$ 41,488
Deferred tax asset to be recovered within 12 months	12,219	13,477
	55,947	54,965
Deferred tax liabilities:		
Deferred tax liability to be reversed after more than 12 months	(117,492)	(119,996)
Deferred tax liability to be reversed within 12 months	(6,794)	(7,881)
	(124,286)	(127,877)
Deferred taxes (net)	$ (68,339)	$ (72,912)

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

	March 31, 2013	December 30, 2012
As presented on statements of financial position:		
Deferred tax assets	$ 51,023	$ 49,332
Deferred tax liabilities	(119,362)	(122,244)
Deferred taxes (net)	$ (68,339)	$ (72,912)

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

	13-Weeks Ended March 31, 2013	13-Weeks Ended April 1, 2012
Beginning of period	$ (72,912)	$ (82,530)
Exchange differences	(436)	259
Tax recorded through net earnings	4,859	(115)
Tax recorded through other comprehensive loss	—	48
Benefit of loss carry forward and share issuance costs recognized against income taxes payable	(176)	(1,819)
Tax recorded through equity	326	—
End of period	$ (68,339)	$ (84,157)

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

Deferred tax liabilities	Property Plant and Equipment	Unrealized Foreign Exchange	Goodwill and Intangibles	Other	**Total**
December 30, 2012	$ (451)	$ —	$ (122,542)	$ (4,884)	$ (127,877)
Tax reversed (charged) through net earnings	97	—	1,528	1,966	3,591
March 31, 2013	$ (354)	$ —	$ (121,014)	$ (2,918)	$ (124,286)

6. DEFERRED TAXES AND INCOME TAX EXPENSE (Continued)

Deferred tax assets	Provisions	Property Plant and Equipment	Pension	Deferred Financing Costs and Interest	Other	Total
December 30, 2012	$ 12,352	$ 14,710	$ 3,374	$ 14,529	$ 10,000	$ 54,965
Tax recovered (charged) through net earnings	986	837	(504)	(25)	(26)	1,268
Tax recorded through equity	—	—	—	326	—	326
Benefit of loss carry forward and share issuance costs recognized against income taxes payable	—	—	—	(176)	—	(176)
Exchange differences	(92)	(109)	(74)	(108)	(53)	(436)
March 31, 2013	$ 13,246	$ 15,438	$ 2,796	$ 14,546	$ 9,921	$ 55,947

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

	13-Weeks Ended March 31, 2013	13-Weeks Ended April 1, 2012
Earnings before income tax expense	$ 3,142	$ 1,235
Tax calculated using a 35% U.S. tax rate	1,100	432
Tax effect of:		
Withholding and other taxes	121	(141)
Non-deductible expenses	(252)	528
Revision of tax estimates	320	(32)
Rate differential on income taxed at other than U.S. statutory rate	(350)	(678)
Foreign exchange impact	(1,081)	720
State taxes	(198)	32
Other	(31)	(66)
Income tax (recovered) expense for the period	$ (371)	$ 795

	13-Weeks March 31, 2013	13-Weeks Ended April 1, 2012
Current income taxes for the period	$ 4,488	$ 962
Deferred income taxes (recovered) for the period	(4,859)	(167)
Income tax (recovered) expense for the period	$ (371)	$ 795

During 2012 Q1 the current tax benefit associated with utilizing loss carry forwards and deducting historical share issuance costs was recorded in error. Management has determined that the error was not material. However, in order to conform to the 2013 Q1 presentation and the requirements under IAS 12, the 2012 Q1 current income taxes have been increased by $1,819 instead of being credited directly through deficit. The correction of this immaterial error did not have an impact on the assets, liabilities or ending deficit of the Company at April 1, 2012.

7. LONG-TERM DEBT

	Final Maturity	Face Value	Unamortized Transaction Costs	**Net Book Value March 31, 2013**	Net Book Value December 30, 2012
Term Credit Facility	April 2014	$ 122,000	$ 858	$ 121,142	$ 120,950
Revolving Credit Facility ("Revolver")	April 2014	48,748	—	48,748	40,035
		170,748	858	169,890	160,985
Less: current portion of long-term debt		48,748	—	48,748	40,035
		$ 122,000	$ 858	$ 121,142	$ 120,950

On June 25, 2012, the Company entered into a third amended and restated credit agreement (the "Credit Facility") with The Bank of Nova Scotia and Bank of Montreal, as co-lead arrangers and joint book runners, and a syndicate of leading Canadian and U.S. financial institutions. The Credit Facility matures on April 24, 2014 and consists of a $105.0 million term loan (the "Term Credit Facility") and a $75.0 million accordion term loan feature, under which $17.0 million was drawn at March 31, 2013. As well, there exists a $90.0 million secured revolving credit facility, which includes a $55.0 million letter of credit sub-facility (the "Revolver") (of which $48.7 million of direct borrowings and $14.5 million of outstanding letters of credits were drawn at March 31, 2013).

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

As at March 31, 2013, the Company is in compliance with the financial covenants in the Credit Facility (note 13d).

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

8. CONVERTIBLE DEBENTURES

On June 5, 2012, the Company completed a public offering of $65 million aggregate principal amount of Debentures, bearing interest at a rate of 6.25% per annum, payable semi-annually on the last day of June and December commencing on December 31, 2012. The Debentures will mature on June 30, 2017 (the "Maturity Date"). The Debentures will be convertible at the holder's option into Shares at a conversion price of $10.00 per Share (the "Conversion Option").

On and after June 30, 2015 and prior to maturity, the Debentures may be redeemed in whole or in part from time to time at the Company's option, at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the Shares on the TSX for the 20 consecutive trading days preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. The Debentures will not be redeemable prior to June 30, 2015.

On the Maturity Date, the Company shall repay the holders in cash the principal of the Debentures and all accrued and unpaid interest thereon, up to but excluding the Maturity Date. However, the Company may, at its option, subject to receiving all applicable regulatory approvals and filing the required notice, elect to satisfy its obligation to repay on the Maturity Date the principal amount, in whole or in part, by issuing and delivering to holders that number of fully paid and non-assessable freely tradeable Shares calculated by dividing each principal amount of Debentures by 95% of the current market price of the Shares on the fifth Trading Day preceding the Maturity Date.

8. CONVERTIBLE DEBENTURES (Continued)

On the date of issuance, the gross proceeds in the amount of $65 million were allocated firstly to the liability component of the Debentures based on the fair value of a similar instrument without a conversion option and the residual value being allocated to the Conversion Option. The fair value of the Debentures was estimated by calculating the discounted cash flows of the Debentures using prevailing market rates for similar non-convertible debt instruments. The fair value of the Debentures is classified as a liability, while the residual value of the Debentures, net of taxes, is classified as a separate component of shareholders' equity. The liability component will accrete to its final redemption amount of $65,000 at Maturity Date at an effective interest rate over the five-year term of the Debentures.

	Debenture liability component	Equity component of Debenture	**Net Book Value March 31, 2013**	Net Book Value December 30, 2012
Proceeds from issue of Debentures	$ 59,412	$ 5,588	$ 65,000	$ 65,000
Debenture issuance costs	(3,463)	(326)	(3,789)	(3,789)
Net proceeds	55,949	5,262	61,211	61,211
Accretion in carrying value of debenture liability	1,187	—	1,187	811
Deferred taxes	—	(1,421)	(1,421)	(1,421)
Net book value	$ 57,136	$ 3,841	$ 60,977	$ 60,601

9. SHARE CAPITAL

Authorized			
Unlimited	Shares		
Issued		**March 31, 2013**	December 30, 2012
49,304,600	Shares (December 30, 2012: 44,379,070)	$ 527,465	$ 476,918

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

Shares	Number (000s)	Net Book Value
Balance - December 30, 2012	44,379	$ 476,918
Shares issued to Marcopolo	4,926	51,404
Less: Share issuance costs (net of tax of $326)	—	(857)
Balance - March 31, 2013	49,305	$ 527,465

On January 23, 2013, Marcopolo, the world's second largest bus builder entered into an agreement with the Company to make a strategic investment of approximately C$116 million to acquire 11,087,834 newly issued Shares, representing a 19.99% stake in the Company. In accordance with the investment agreement entered into by NFI and Marcopolo (the "Investment Agreement"), each Share will be issued at a price of C$10.50 per Share, or an approximate 20% premium to the 30 day volume-weighted average trading price of the shares on the TSX for the period ending January 23, 2013. 4,925,530 Shares were issued to a wholly-owned Canadian subsidiary of Marcopolo on February 15, 2013 for aggregate consideration of approximately C$51.7 million and the remainder of the Shares (being 6,162,304 Shares) will be issued to Marcopolo at the same price per Share in one tranche on or prior to February 15, 2014, as determined by NFI based on its investment and financing needs and in certain other circumstances.

The dividends declared in 2013 Q1 and 2012 Q1 were $6,870 ($0.15 per Share) and $9,550 ($0.22 per Share) respectively. Dividends of $2,404 ($0.05 per Share) were proposed or declared after March 31, 2013 but prior to the Statements being authorized for issue. The Statements do not reflect this dividend payable.

10. EARNINGS PER SHARE

		13-weeks Ended March 31, 2013		13-weeks Ended April 1, 2012 (note 2.4, 6)
Net earnings attributable to equity holders	$	3,513	$	440
Add: Interest expense on Debentures, net of tax		1,016		—
Net earnings used to determine diluted earnings per Share	$	4,529	$	440
Weighted average number of Shares in issue		46,868,898		44,379,070
Add: assumed conversion of Debentures		6,500,000		—
Weighted average number of Shares for calculation of diluted earnings per Share		53,368,898		44,379,070
Net earnings per Share (basic)	$	0.08	$	0.01
Net earnings per Share (diluted)	$	0.08	$	0.01

In preparing the 2012 Q1 comparative information, the Company has adjusted amounts reported previously in the interim condensed consolidated financial statements as a result of the retrospective application of the amendments to IAS 19, Employee Benefits. Refer to note 2.4 for details regarding adjusted amounts.

a) Basic earnings per share is calculated by dividing the net earnings attributable to equity holders of the Company by the weighted average number of Shares outstanding during the period excluding Shares purchased by the Company and held as treasury shares. During the period the Company did not hold any Shares as treasury shares.

b) Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares using closing share price at the period end date. Dilution could occur either through exercise of the Conversion Option or the Debentures being repaid with Shares at Maturity Date at 95% of market price. Currently, the most dilutive method of conversion is the Company's right to redeem the Debentures in Shares at 95% of current market price. The Debentures are assumed to have been converted into Shares, and the net earnings are adjusted to eliminate the interest expense less the tax effect. The additional 6,162,304 Shares that will be issued to Marcopolo in the future are currently anti-dilutive to earnings per share based on the agreed upon price of C$10.50 per Share using the treasury share calculation methodology described in IAS 33, however upon issuance of these Shares the weighted average number of Shares will increase and therefore impact net earnings per Share for the related period.

11. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)		13-weeks Ended March 31, 2013		13-weeks Ended April 1, 2012
Accounts receivable	$	(25,681)	$	4,556
Income taxes recoverable		(682)		(1,272)
Inventories		11,425		939
Prepaid expenses and deposits		(862)		1,236
Accounts payable and accrued liabilities		(985)		3,180
Income taxes payable		(6,756)		(4,964)
Deferred revenue		(6,607)		(663)
Provision for warranty costs		(374)		(3,199)
Other		7,065		6,280
	$	(23,457)	$	6,093

12. EMPLOYEE FUTURE BENEFITS

Defined benefit plan

The Company's subsidiary, NFI ULC, has a defined benefit plan which only covers unionized employees at the Winnipeg facility. The cumulative net actuarial losses on defined benefit pension are $6,490 (net of income tax recovery of $3,925) which are recorded in accumulated other comprehensive loss.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Financial Instruments

The Company has made the following classifications:

Cash	Loans and receivables
Accounts receivable	Loans and receivables
Deposits	Loans and receivables
Accounts payables and accrued liabilities	Other Liabilities
Convertible debentures	Other Liabilities
Long-term debt	Other Liabilities
Derivative financial instruments and embedded derivatives	Fair value through profit or loss

(b) Risk Management

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

The use of derivatives allows the transfer, modification and reduction of current and expected risks, including interest rate, foreign exchange and other market risks. The Company uses derivative financial instruments to manage interest rate and foreign exchange risks in accordance with its risk management policies. Certain derivative instruments, while providing effective economic hedges, are not designated as hedges for accounting purposes. Changes in the fair value of any derivatives that are not designated as hedges for accounting purposes are recognized within “finance costs” or “unrealized foreign exchange loss on non-current monetary items” in the interim condensed consolidated statements of profit or loss and total comprehensive income consistent with the underlying nature and purpose of the derivative instruments.

In connection with the Credit Facility, the Company has an interest rate swap designed to hedge floating rate exposure for the term of the Credit Facility on $90,000 out of the $122,000 drawn term loan. The interest rate swap fixes the interest rate at 1.90% plus the applicable interest margin until April 2014 (maturity date). The fair value of the interest rate swap liability at March 31, 2013 is $1,608 (December 30, 2012: $1,976) and the change in fair value has been recorded as finance costs for the reported period. The related liability has been recorded on the interim condensed consolidated statements of financial position as a derivative financial instruments liability.

(c) Liquidity Management

The Company’s approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At March 31, 2013, the Company had a cash balance of $6,632 (December 30, 2012: $11,182) and the $90,000 Revolver. As at March 31, 2013, there was $48,748 of direct borrowings (December 30, 2012: $40,035) and $14,472 of outstanding letters of credits (December 30, 2012: $14,207) under the Revolver.

The Company’s principal sources of funds are cash generated from its operating activities, share issuances and borrowing capacity remaining under the Credit Facility. Management believes that these funds will provide NFI with sufficient liquidity and capital resources to meet its current and future financial obligations as they come due, as well as to provide funds for its financing requirements, capital expenditures and other needs for the foreseeable future.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(d) Credit risk

The carrying amount of accounts receivable is reduced through the use of an allowance account and the amount of the loss is recognized in the interim condensed consolidated statements of profit or loss and total comprehensive income within "sales, general and administration costs and other operating expenses". When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against "sales, general and administration costs and other operating expenses" in the interim condensed consolidated statements of profit or loss and total comprehensive income.

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

	March 31, 2013	December 30, 2012
Current, including holdbacks	$ 134,223	$ 104,759
Past due amounts but not impaired		
1 – 60 days	10,302	6,251
Greater than 60 days	603	2,525
Less: Allowance for doubtful accounts	(67)	(75)
Total accounts receivables, net	$ 145,061	$ 113,460

As at March 31, 2013, there was no amount that would otherwise be past due or impaired whose terms have been renegotiated.

There are certain financial covenants under the Credit Facility that must be maintained. These financial covenants include an interest coverage ratio and total leverage ratio. As at March 31, 2013, the Company was in compliance with the financial covenants in the Credit Facility. The results of the financial covenants tests as of such date are as follows:

	March 31, 2013	December 30, 2012
Total Leverage Ratio (must be less than 3.25)	2.78	2.52
Interest Coverage Ratio (must be greater than 3.00)	4.34	4.23

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

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

14. SEGMENT INFORMATION

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

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

There is no inter-segment revenue. Unallocated items in the consolidated earnings before income taxes primarily include foreign exchange gains or losses, losses or gains on disposition of property, plant and equipment, depreciation of property, plant and equipment, amortization of intangible assets, interest expense and income, fair value adjustment to embedded derivatives, accretion in carrying value of long-term debt, costs associated with assessing strategic and corporate initiatives and gains and losses on the Company's interest rate swap. Corporate overhead costs are allocated fully to the Bus Operations segment. The Bus Operations segment has recorded vendor rebates of $784 (2012 Q1: $668), which have been recognized into earnings during 2013 Q1, but for which the full requirements for entitlement to these rebates have not yet been met.

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

Corporate assets that are shared by both operating segments are allocated fully to the Bus Operations segment. Segment information about profits and assets is as follows:

	13-Weeks Ended March 31, 2013			
	Bus Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 210,038	$ 37,340	$ –	$ 247,378
Operating costs and expenses	201,698	32,050	–	233,748
Earnings (loss) before income tax expense	8,340	5,290	(10,488)	3,142
Total assets	426,521	117,020	391,284	934,825
Addition of intangibles	27	13,153	–	13,180
Addition of capital expenditures	522	399	–	921
Goodwill	148,483	54,762	–	203,245

	13-Weeks Ended April 1, 2012			
	Bus Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 196,233	$ 31,411	$ –	$ 227,644
Operating costs and expenses	188,510	25,666	–	214,176
Earnings (loss) before income tax expense	7,723	5,745	(12,233)	1,235
Total assets	375,013	98,185	383,812	857,010
Addition of capital expenditures	3,636	24	–	3,660
Goodwill	148,483	53,685	–	202,168

15. COMMITMENTS AND CONTINGENCIES

(a) Through the normal course of operations, the Company has indemnified the surety companies providing surety bonds required under various contracts with customers. In the event that the Company fails to perform under a contract and the surety companies incur a cost on a surety bond, the Company is obligated to repay the costs incurred in relation to the claim up to the value of the bond. The Company's guarantee under each bond issued by the surety companies expires on completion of obligations under the customer contract to which the bond relates. The estimated maturity dates of the surety bonds outstanding at March 31, 2013 range from April 2013 to June 2015.

At March 31, 2013, outstanding surety bonds guaranteed by the Company totaled $114,644 (December 30, 2012: $52,030). The Company has not recorded any liability under these guarantees, as management believes that no material events of default exist under any contracts with customers.

(b) The Company has a letter of credit sub-facility of $55,000 as part of the $90,000 Revolver. As at March 31, 2013, letters of credit totaling $14,472 (December 30, 2012: $14,207) remain outstanding under the letter of credit facility.

As at March 31, 2013, management believes that the Company is in compliance in all material respects with all applicable contractual obligations and the Company has not provided for any costs associated with these letters of credit.

16. PROVISION FOR WARRANTY COSTS

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

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

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

		Total
December 30, 2012	$	20,106
Additions		6,196
Amounts used/realized		(6,407)
Unwinding of discount and effect of changes in the discount rate		(7)
Exchange differences		(156)
March 31, 2013	$	19,732

17. SUBSEQUENT EVENTS

The Board adopted a Share Option Plan (the "Option Plan") for NFI on March 21, 2013, under which employees of NFI and certain of its affiliates ("participants") may receive grants of share options. Directors who are not employed with NFI are not eligible to participate in the Option Plan. A maximum of 3,600,000 Shares will be available for issuance under the Option Plan. Also on March 21, 2013, the Board approved grants of an aggregate of 490,356 share options (the "Options") to eleven executives, effective March 26, 2013. However, in accordance with the policies of the TSX, NFI is required to submit the Option Plan for approval by NFI's shareholders and the ratification of the grant of the Options at the annual general meeting on May 9, 2013, and as such the Company has not recorded these Options in these Statements.

If approved, the Option Plan will be effective as of March 21, 2013, and the grant of the Options will be effective on March 26, 2013. The Options will expire on March 26, 2021. All of the Options have been granted to insiders. These Options cannot be exercised until such time that NFI has obtained shareholder approval of the Option Plan and the grants have been ratified by shareholders. The Options will be cancelled if shareholders do not approve the Option Plan and do not ratify these grants.