August 6, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS AND 26-WEEKS ENDED JUNE 30, 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 ("2013 Q2") and the 26-week period ("2013 YTD") ended June 30, 2013. 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 June 30, 2013, 55,466,904 Shares and $65.0 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 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 EARNINGS FROM OPERATIONS, EBITDA, ADJUSTED EBITDA AND FREE CASH FLOW

References to "Earnings from Operations" are to earnings before interest expense, income taxes, losses or gains on disposal of property, plant and equipment, unrealized foreign exchange losses or gains on non-current monetary items and fair value adjustment to embedded derivatives. 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 transitional costs relating to business acquisitions, loss on debt repurchase, loss on exercise of redemption right, past service pension costs, realized and unrealized investment tax credits ("ITCs"), stock-based compensation and costs associated with assessing strategic and corporate initiatives.

Management believes Earnings from Operations, 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 transitional relating to the business acquisitions, 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, Earnings from Operations, EBITDA, Adjusted EBITDA and Free Cash Flow are not recognized earnings measures under IFRS and do not have standardized meanings prescribed by IFRS. Readers of this MD&A are cautioned that Earnings from Operations, 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 Earnings from Operations, 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 a leading manufacturer of heavy-duty transit buses in the United States and Canada. The Company is a technology leader and offers the broadest product line in the industry including drive systems powered by: clean diesel, natural gas and electric trolley as well as energy-efficient diesel-electric hybrid vehicles. All buses are supported by an industry-leading comprehensive warranty and support program, and service network. The Company also operates the transit industry's most sophisticated aftermarket parts organization, sourcing parts from hundreds of different suppliers and providing support for all types of heavy-duty transit buses. The

Company employs over 3,000 team members with manufacturing, fabrication, parts distribution and service centers in both Canada and the United States.

Industry Overview

U.S. Economy and State Tax Collection

The U.S. general economic health continues to show improvement with preliminary data from the Rockefeller Institute (Data Alert on June 5, 2013) reporting U.S. state tax collections increasing in the first quarter of 2013 for the 13th consecutive quarter, with a 9.3% increase over the prior year, a significant improvement from the 5.7% increase reported during the fourth quarter of 2012.

Recent Ridership Trends

The latest data from the American Public Transportation Association's (APTA) ridership report indicated a decrease of 1.91% in all modes of U.S. transit ridership during the first quarter of 2013 compared with the previous year; and a decrease in bus ridership of 2.17%. The same report indicates Canadian ridership decreased by 2.62% in all modes of transit ridership during the first quarter of 2013 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 Canadian heavy-duty buses has reduced from ten to six and a half 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 customers undertake in order to purchase new vehicles. The Company tracks new and potential orders in a “pipeline” or “bid universe” as a key indicator in support of management's forecast for overall market demand and bid activity for the 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 Bid Universe**
2012 Q1	2,390	3,107	9,603	15,100
2012 Q2	2,156	4,574	8,454	15,184
2012 Q3	3,334	2,542	11,854	17,730
2012 Q4	4,214	4,626	10,613	19,453
2013 Q1	3,173	4,145	7,917	15,235
2013 Q2	3,620	4,869	9,608	18,097

(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 bus market continues to show positive signs of recovery. The total number of active EUs where RFPs were 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 Q2 remains high at 8,489 EUs, compared to 7,318 EUs at the end of Q1 2013.

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 complexity of the technologies integrated into transit buses, coupled with transit authorities' constrained operating budgets as well as high bus utilization levels, continue to drive demand for aftermarket parts and support. The Company's leading share of in-service heavy-duty transit buses provides recurring demand and a significant opportunity to grow its aftermarket 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).

Gross orders received by New Flyer's aftermarket business (excluding NABI, as defined below) during 2013 Q2 for core parts sales increased 49% compared to 13-week period ended July 1, 2012 ("2012 Q2"), while shipments in 2013 Q2 increased 17.1% over 2012 Q2. Order intake in 2013 Q2 has been significantly impacted as ramp up for the previously announced Chicago Transit Authority Midlife Overhaul program began and orders from the Orion parts business, which was acquired by NFI on March 1, 2013, are included in the aftermarket order intake.

2013 Q2 orders also rose 18.9% over 2013 Q1 and shipments were up 6.9% over 2013 Q1. The Company continues to experience a challenging price environment.

2013 Second Quarter in Review

June 21, 2013 Transaction

On June 21, 2013, the Company acquired 100% of the voting equity interest in NABI-Optima Holdings Inc. ("NABI") from an affiliate of Cerberus Capital Management, L.P. for cash consideration of approximately $80.0 million, virtually all for the satisfaction of affiliate debt. The purchase price was funded by the proceeds from the C$64.7 million equity investment by Marcopolo S.A. ("Marcopolo") and an additional $20 million that was drawn from the Company's renewed senior secured credit facility.

The Company issued 6,162,304 Shares to Marcopolo for proceeds of C$64.7 million. The Shares were issued as part of the second and final tranche of Marcopolo's strategic equity investment in New Flyer. Under the agreement with Marcopolo dated as of January 23, 2013, Marcopolo agreed to make an aggregate strategic investment of C$116.4 million to acquire 11,087,834 newly issued Shares, representing a 19.99% stake in New Flyer. The first tranche of the Marcopolo investment was completed on February 15, 2013. Each Share was issued at a price of C$10.50 per Share.

Concurrent with the acquisition of NABI, the Company completed a fourth amended and restated credit agreement (the "Credit Facility") which extended its senior secured credit facility to April 24, 2017 while increasing the total amount of the Credit Facility to $257 million, an increase of $45 million. The borrowing limit of the revolving facility (the "Revolver") has been increased to $115 million from $90 million to support working capital fluctuations. The borrowing limit of the term facility (the "Term Credit Facility") has been increased to $142 million from $122 million. In addition, certain financial covenants and definitions have been adjusted to reflect the acquisition of NABI. The credit agreement also maintains an accordion feature of $75 million for future investment or acquisition opportunities.

Order activity during 2013 Q2

New orders (firm and options) for 2013 Q2 totaled 513 EUs. The new firm and option orders awarded to New Flyer over the last twelve months ("LTM") ending June 30, 2013 were 4,019 EUs compared to 229 EUs for the LTM ending July 1, 2012. Also, New Flyer was successful at converting options for 676 EUs as compared to 1,036 EUs during the same LTM periods.

As well, firm and option orders of an additional 50 new buses (100 EUs) for New Flyer were pending at the end of 2013 Q2; 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 June 30, 2013 and therefore this order was not included in the 2013 Q2 backlog. This contract has subsequently been awarded to New Flyer.

In addition to the pending order, the Company was advised in the week following the end of 2013 Q2 of the following upcoming awards:

- New Flyer has been selected by a major US public transit agency to provide up to 350 40' and up to 180 60' electric trolley Xcelsior buses (a total of up to 710 EUs). The agency has issued New Flyer a letter of Intent to Award, and has commenced all pre-award audits. All required approvals and audits are completed and a notice to proceed has been issued. New Flyer will add the order to the backlog in the third quarter of 2013.
- NABI Bus LLC, the name under which the Company operates the NABI bus business, has been selected by a major US public transit agency to provide up to 238 40' diesel-electric hybrid BRT buses, up to 370 40' CNG BRT buses, and up to 71 60' diesel-electric hybrid BRT buses (a total of up to 750 EUs). The agency has issued NABI a letter of Intent to Award, and has completed pre-award audits. In July 2013 the contract was executed.

The total backlog at the end of 2013 Q2 was 8,536 EUs, an increase of 13.4% from the backlog at the end of 2013 Q1. The firm portion of the total backlog at the end of 2013 Q2 is made up of 2,252 EUs which has increased 18.6% compared with 1,899 EUs at the end of 2013 Q1. The total value of the order backlog at the end of 2013 Q2 was $3.7 billion, compared with $3.3 billion at the end of 2013 Q1. In addition to New Flyer's 2013 Q2 order activity, the total backlog also increased due to the addition of 1,159 EUs relating to the NABI acquired backlog. 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 75% of the total orders. In 2013 Q2 a total of 174 EUs expired.

Deliveries in 2013 Q2 were 489 EUs, improved 10.9% from 441 EUs delivered in 2012 Q2 which included 15 EUs delivered by NABI during the 9 day period between the NABI acquisition and June 30, 2013. Also, the increased deliveries were as a result of the Company being able to reduce the work in process inventory ("WIP") levels, excluding the 116 EUs acquired with NABI.

New Flyer's Book-to-Bill ratio (defined as new order intake – both firm and options - divided by deliveries in the quarter, including the 9 days of NABI operations) for the LTM ending June 30, 2013 was 230% as compared to a Book-to-Bill ratio of only 13% for the LTM ended July 1, 2012. A ratio of above 100% implies that more orders were received than filled, indicating strong demand.

New Flyer plans for its production line entry rate for the remainder of Fiscal 2013 to average approximately 48 EUs per production week (including the acquired NABI operations), 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 Q2, the Company line entered 475 EUs which includes 18 EUs line entered by NABI during the 9 days after acquisition. Management currently expects the line entry rate to be on average less than 48 EUs per production week, during the third quarter of 2013 due to a company-wide planned vacation during the first week of the third quarter which is expected to be offset by higher planned production in the fourth quarter of 2013.

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 long-term 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.

The Company and the union of members of the Communication Workers of America ("CWA") collective bargaining unit at New Flyer's St. Cloud facility ratified a new four-year collective bargaining agreement on May 31, 2013. This new four-year contract is retroactive to April 1, 2013 and will expire on March 31, 2017, and replaces the previous agreement that expired on March 31, 2013. The new agreement provides annual wage increases of 2.5% in year one, 2.5% in year two, 2% in year three and 2.25% in year four. The agreement also freezes entry level wage scales and increases time progression to full rate for new employees during the term of the agreement. The parties have agreed to an increase in employee medical cost share contributions.

2013 Second Quarter Financial Results

The Company generated consolidated revenue of $268.7 million for 2013 Q2, an increase of 18.4% compared to consolidated revenue for 2012 Q2 of $227.0 million, and consolidated revenue for 2013 YTD of $516.0 million, an increase of 13.5% from consolidated revenue for the 26-week period ended July 1, 2012 ("2012 YTD") of $454.6 million.

Revenue from bus manufacturing operations for 2013 Q2 was $217.3 million, an increase of 10.1% from $197.4 million in 2012 Q2, and revenue of $427.4 million for 2013 YTD increased 8.6% from $393.6 million for 2012 YTD. The increase in 2013 Q2 revenue primarily resulted from a 10.9% increase in total bus deliveries of 489 EUs in 2013 Q2 compared to 2012 Q2 deliveries of 441 EUs, offset by a 0.7% decrease in average selling price per EU in 2013 Q2 compared to 2012 Q2. The average selling price per EU in 2013 Q2 was $444.4 thousand which decreased slightly compared to $447.5 thousand in 2012 Q2. Bus deliveries in 2013 YTD totaled 979 EUs, also increased 10.9% compared to 883 EUs in 2012 YTD, while the average selling price per EU in 2013 YTD was $436.5 thousand, a decrease from $445.8 thousand in 2012 YTD. The increased deliveries were as a result of the Company being able to reduce the WIP levels during 2013 YTD. This resulted in WIP at the end of 2013 Q2 totaling 305 EUs, including 119 EUs of NABI's WIP at June 30, 2013.

Revenue from aftermarket operations in 2013 Q2 was $51.3 million, an increase of 73.4% compared to $29.6 million in 2012 Q2. Revenue from aftermarket operations for 2013 YTD of $88.7 million, an increase of 45.3% compared to $61.0 million in 2012 YTD. The increase in aftermarket operations revenue is primarily a result of increased volumes including incremental revenue from the Orion parts business subsequent to the March 1, 2013 acquisition date and a general sales volume increase when comparing to 2012 YTD.

Consolidated Adjusted EBITDA for 2013 Q2 totaled $18.1 million compared to $16.4 million in 2012 Q2, which represents an increase of 10.4%. In comparing the respective periods, this increase in consolidated Adjusted EBITDA is primarily due to the incremental aftermarket operations Adjusted EBITDA produced from the Orion parts business.

2013 Q2 bus manufacturing operations Adjusted EBITDA of $10.6 million (4.9% of revenue) decreased 6.5% compared with 2012 Q2 bus manufacturing operations Adjusted EBITDA of $11.3 million (5.7% of revenue) primarily due to lower realized foreign exchange gains when comparing the two periods.

2013 Q2 aftermarket operations Adjusted EBITDA of $7.5 million (14.6% of revenue) increased 48.0% compared to $5.1 million (17.1% of revenue) in 2012 Q2, primarily due to the $2.2 million of additional Adjusted EBITDA generated from Orion parts business after normalizing EBITDA for $0.6 million of non-recurring transitional costs. Readers are cautioned that 2013 Q2 Orion results may not be representative of every quarter and therefore should not be linearly extrapolated to forecast the entire year. 2013 Q2 Orion results were positively impacted by heavy pre-ordering by a number of very large customers in an effort to avoid the July transition period. During July the inventory at the former Orion Canton Ohio warehouse is being physically moved and integrated to the New Flyer network of Parts Distribution Centers ("PDCs"), including the recently expanded Midwest PDC in Kentucky. The majority of the non-recurring transitional costs relating to relocating the Orion inventory and integrating the people and processes will occur in the second half of 2013.

2013 YTD consolidated Adjusted EBITDA of $33.4 million (6.5% of revenue) increased by 3.5% compared to 2012 YTD consolidated Adjusted EBITDA of $32.3 million (7.1% of revenue).

Bus manufacturing operations Adjusted EBITDA of $20.5 million (4.8% of revenue) for 2013 YTD decreased 4.8% compared to $21.5 million (5.5% of revenue) for 2012 YTD bus manufacturing operations Adjusted EBITDA. This decrease in Adjusted EBITDA is primarily a result of the Company recognized lower realized foreign exchange gains of $0.5 million in 2013 YTD as compared with a net realized foreign exchange gain of $1.7 million in 2012 YTD.

Aftermarket operations Adjusted EBITDA for 2013 YTD of $13.0 million (14.6% of revenue) represents an increase of 20.0% over 2012 YTD aftermarket operations Adjusted EBITDA of $10.8 million (17.7% of revenue).

The Company reported net earnings of $1.7 million in 2013 Q2, a decrease compared to net earnings of $3.4 million in 2012 Q2, primarily as a result of $3.3 million increase in costs associated with acquisition of NABI and $0.6 million of non-recurring expenses related to the Orion parts business transition offset by the favourable impact caused by foreign currency translation which resulted from the weakening Canadian dollar. 2013 YTD net earnings of $5.2 million increased compared to 2012 YTD net earnings of $3.8 million, due to reduced finance costs and decrease in income tax expense.

The Company generated Free Cash Flow of C$9.2 million during 2013 Q2 while declaring dividends of C$7.5 million as compared to C$5.6 million of Free Cash Flow generated in 2012 Q2 and declared dividends of C$9.5 million. During 2013 YTD, New Flyer generated Free Cash Flow of C$16.2 million while declaring dividends of C$14.5 million as compared to C$13.7 million of Free Cash Flow generated in 2012 YTD and declared dividends of C$19.1 million. Management believes that sufficient Free Cash Flow will be generated to maintain the current dividend rate.

During 2013 Q2, the Company increased its cash by $9.8 million, primarily due to decreased investment in non-cash working capital items, such as decreased inventories and accounts receivables and the free cash flow generated from operations. The $80 million acquisition of NABI was funded with the cash received from Marcopolo's investment in NFI and $20 million draw on in the Company's Term Credit Facility.

The June 30, 2013 liquidity position of $83.4 million is comprised of available cash of $16.5 million and $66.9 million available under the Revolver. As at June 30, 2013, there were $19.5 million of direct borrowings and $28.6 million of outstanding letters of credits related to the $115.0 million Revolver. Management believes that these funds, together with the cash generated from the Company's operating activities 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, dividend payments 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[1]	Net earnings (loss)	EBITDA [1]	Adjusted EBITDA [1]	Earnings (loss) per share[3]
2013	Q2	$ 268,669	$ 6,794	$ 1,684	$ 13,331	$ 18,063	$ 0.03
	Q1	247,378	6,496	3,513	12,788	15,376	0.08
	Total	**$ 516,047**	**$ 13,290**	**$ 5,197**	**$ 26,119**	**$ 33,439**	**$ 0.11**
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]	NABI inventory acquired (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]	Inventory comprised of: Finished goods (equivalent units)[2] & [4]
2013	Q2	203	116	475*	489*	305	301	4
	Q1	225	—	468	490	203	199	4
	Total	**225**	**116**	**943**	**979**	**305**	**301**	**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**

* Includes 15 EUs delivered and 18 line entered by NABI during the period June 21, 2013 to June 30, 2013.

COMPARISON OF SECOND QUARTER AND TRAILING TWELVE MONTHS RESULTS

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

	13-Weeks Ended June 30, 2013	13-Weeks Ended July 1, 2012	26-Weeks Ended June 30, 2013	26-Weeks Ended July 1, 2012	52-Weeks Ended June 30, 2013	52-weeks Ended July 1, 2012
Statement of Earnings Data						
Revenue						
Canada	$ 29,884	$ 47,553	$ 68,254	$ 80,413	$ 110,213	$ 133,389
U.S.	187,439	149,816	359,107	313,189	677,411	688,447
Bus manufacturing operations	217,323	197,369	427,361	393,602	787,624	821,836
Canada	16,704	9,795	28,949	19,490	46,648	37,926
U.S.	34,642	19,816	59,737	41,532	100,066	81,086
Aftermarket operations	51,346	29,611	88,686	61,022	146,714	119,012
Total revenue	$ 268,669	$ 226,980	$ 516,047	$ 454,624	$ 934,338	$ 940,848
Earnings from Operations(1)	$ 6,794	$ 10,686	$ 13,290	$ 18,696	$ 28,835	$ 63,773
Earnings before interest and income taxes	4,903	5,848	11,174	10,754	25,583	63,035
Net earnings	1,684	3,398	5,197	3,838	10,649	33,467
EBITDA(1)	13,331	11,055	26,119	24,337	54,069	77,779
Adjusted EBITDA(1)						
Bus manufacturing operations including realized foreign exchange losses/gains	10,553	11,291	20,454	21,482	40,220	49,046
Aftermarket operations	7,510	5,075	12,985	10,820	21,742	21,317
Total Adjusted EBITDA(1)	$ 18,063	$ 16,366	$ 33,439	$ 32,302	$ 61,962	$ 70,363
Other Data						
Canada	74	113	166	191	267	313
U.S.	415	328	813	692	1,485	1,482
Total deliveries (equivalent units)(2)	489	441	979	883	1,752	1,795
Total capital expenditures	$ 2,622	$ 2,352	$ 3,635	$ 6,012	$ 10,479	$ 12,133
New options awarded	$ 115,375	$ —	$ 835,185	$ —	$ 1,145,492	$ 50,207
New firm orders awarded	108,654	50,319	337,654	62,336	668,205	72,965
Exercised options	17,645	172,241	116,795	238,110	308,745	433,989
Total firm orders	$ 126,299	$ 222,560	$ 454,449	$ 300,446	$ 976,950	$ 506,954

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

(Unaudited, U.S. dollars in thousands)	**June 30, 2013**		December 30, 2012		January 1, 2012	
Selected Balance Sheet Data						
Total assets	$ 1,086,124		$ 897,224		$ 870,462	
Long-term financial liabilities	337,580		314,450		300,234	
Other Data		Equivalent Units[2]		Equivalent Units[2]		Equivalent Units[2]
Firm orders - USA	$ 966,026	2,088	$ 676,266	1,525	$ 585,517	1,305
Firm orders – Canada	65,075	164	64,578	147	72,390	171
Total firm orders	1,031,101	2,252	740,844	1,672	657,907	1,476
Options – USA	2,560,807	5,924	1,787,685	4,320	2,204,229	5,286
Options - Canada	149,759	360	145,090	333	139,275	335
Total options	2,710,566	6,284	1,932,775	4,653	2,343,504	5,621
Total backlog	$ 3,741,667	8,536	$ 2,673,619	6,325	$ 3,001,411	7,097

Equivalent Units in Backlog	**26 Weeks Ended June 30, 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[5]	4,653[6]	1,476[5]	5,621[6]	1,897[5]	6,815[6]
New orders	746	1,771	882	738	182	477
NABI acquired backlog	551	608	—	—	—	—
Options exercised	262	(262)	970	(970)	1,208	(1,208)
Shipments	(979)	—	(1,656)	—	(1,811)	—
Cancelled/expired	—	(486)	—	(736)	—	(463)
End of period	2,252[5]	6,284[6]	1,672[5]	4,653[6]	1,476[5]	5,621[6]

In 2013 YTD a total of 486 option EUs expired. The maximum term for a contract permitted by the U.S. Federal Transit Administration (the "FTA") is five years.

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

2013 Q3	619
2013 Q4	1,845 [6]
2013	2,464 [6]
2014	1,205
2015	962
2016	105
2017	545
2018	1,003
Total options	6,284[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 Earnings from Operations, EBITDA, Adjusted EBITDA and Free Cash Flow" above. The following tables reconcile net earnings or losses and cash flow from operations to EBITDA and Adjusted EBITDA based on the historical consolidated financial statements of the Company for the periods indicated.

(Unaudited, US dollars in thousands)	13-Weeks Ended June 30, 2013	13-Weeks Ended July 1, 2012	26-Weeks Ended June 30, 2013	26-Weeks Ended July 1, 2012	52-Weeks Ended June 30, 2013	52-weeks Ended July 1, 2012
Net (loss) earnings	$ 1,684	$ 3,398	$ 5,197	$ 3,838	$ 10,649	$ 33,467
Addback[1]						
Income taxes (recovered)	(1,185)	(1,778)	(1,556)	(983)	150	6,302
Finance cost	4,404	4,228	7,533	7,899	14,784	23,269
Amortization	6,537	5,899	12,829	11,921	25,234	24,258
Gain on disposal of property, plant and equipment	—	—	—	—	—	35
Fair value adjustment to embedded derivatives	—	—	—	1,395	—	43
Unrealized foreign exchange loss on non-current monetary items and forward foreign exchange contracts	1,891	(692)	2,116	267	3,252	(9,595)
EBITDA[2]	13,331	11,055	26,119	24,337	54,069	77,779
Costs associated with assessing strategic and corporate initiatives[7]	3,253	154	4,383	169	4,956	596
Loss on exercise of redemption right[5]	—	5,530	—	5,530	—	5,530
Loss on debt repurchase[6]	—	—	—	—	—	4,722
Realized (unrealized) investment tax credits[8]	799	(373)	2,072	504	2,072	(20,026)
Past service pension costs[3]	—	—	—	1,762	—	1,762
Non-recurring transitional costs relating to business acquisitions[9]	582	—	767	—	767	—
Stock-based compensation	98	—	98	—	98	—
Adjusted EBITDA[2]	$ 18,063	$ 16,366	$ 33,439	$ 32,302	$ 61,962	$ 70,363

RECONCILIATION OF CASH FLOW TO EBITDA AND ADJUSTED EBITDA

(Unaudited, US dollars in thousands)	13-Weeks Ended June 30, 2013	13-Weeks Ended July 1, 2012	26-Weeks Ended June 30, 2013	26-Weeks Ended July 1, 2012	52-Weeks Ended June 30, 2013	52-weeks Ended July 1, 2012
Net cash generated by (used in) operations	$ 40,710	$ (8,073)	$ 16,117	$ 4,888	$ 40,226	$ 2,759
Addback[1]						
Changes in non-cash working capital items	(36,050)	16,179	(12,593)	10,086	(22,150)	30,724
Defined benefit funding	2,282	863	4,322	2,534	9,124	4,935
Defined benefit expense	(647)	(438)	(1,304)	(3,427)	(2,181)	(4,335)
Interest paid	4,739	4,441	7,664	8,611	16,126	25,503
Loss on exercise of redemption right[5]	—	(5,530)	—	(5,530)	—	(5,530)
Loss on debt repurchase	—	—	—	—	—	(4,722)
Realized (unrealized) investment tax credits	(799)	373	(2,072)	(504)	(2,072)	20,026
Stock-based compensation	(98)	—	(98)	—	(98)	—
Foreign exchange gain on cash held in foreign currency	125	(112)	746	97	2,799	149
Income taxes paid[4]	3,069	3,352	13,337	7,582	12,295	8,270
EBITDA[2]	13,331	11,055	26,119	24,337	54,069	77,779
Costs associated with assessing strategic and corporate initiatives[7]	3,253	154	4,383	169	4,956	596
Loss on exercise of redemption right[5]	—	5,530	—	5,530	—	5,530
Loss on debt repurchase[6]	—	—	—	—	—	4,722
Realized (unrealized) investment tax credits[8]	799	(373)	2,072	504	2,072	(20,026)
Past service pension costs[3]	—	—	—	1,762	—	1,762
Non-recurring transitional costs relating to business acquisitions[9]	582	—	767	—	767	—
Stock-based compensation	98	—	98	—	98	—
Adjusted EBITDA[2]	$ 18,063	$ 16,366	$ 33,439	$ 32,302	$ 61,962	$ 70,363

(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, including amounts normalized to exclude non-recurring expenses related to acquiring Orion parts business and NABI.

(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 transitional costs related to recently acquired Orion parts business and NABI.

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 Earnings from Operations, EBITDA, Adjusted EBITDA and Free Cash Flow".

(Unaudited, US dollars in thousands)	**13-Weeks Ended June 30, 2013**	**13-Weeks Ended July 1, 2012**	**26-Weeks Ended June 30, 2013**	**26-Weeks Ended July 1, 2012**	**52-Weeks Ended June 30, 2013**	**52-weeks Ended July 1, 2012**
Net cash generated by operating activities	$ 40,710	$ (8,073)	$ 16,117	$ 4,888	$ 40,226	$ 2,759
Changes in non-cash working capital items[3]	(36,050)	16,179	(12,593)	10,086	(22,150)	30,724
Interest paid[3]	4,739	4,441	7,664	8,611	16,126	25,503
Interest expense[3]	(2,959)	(4,317)	(5,888)	(7,922)	(12,519)	(22,077)
Income taxes paid[3]	3,069	3,352	13,337	7,582	12,295	8,270
Current income tax (expense) recovered[3]	(3,685)	(5,233)	(8,173)	(6,195)	(14,787)	(31,476)
Principal portion of finance lease payments	(506)	(629)	(1,214)	(1,274)	(2,358)	(2,657)
Cash capital expenditures[9]	(2,009)	(610)	(2,321)	(3,289)	(2,987)	(4,954)
Proceeds from sale of redundant assets	—	—	—	—	—	35
Non-recurring transitional costs relating to business acquisitions[10]	582	—	767	—	767	—
Costs associated with assessing strategic and corporate initiatives[8]	3,253	154	4,383	169	4,956	596
Past service pension costs[6]	—	—	—	1,762	—	1,762
Defined benefit funding[4]	2,282	863	4,322	2,534	9,124	4,935
Defined benefit expense[4]	(647)	(438)	(1,304)	(3,427)	(2,181)	(4,335)
Foreign exchange gain on cash held in foreign currency[5]	125	(112)	746	97	2,799	149
Free Cash Flow (US$)[1]	8,904	5,577	15,843	13,622	29,311	9,234
U.S. exchange rate[2]	1.0341	1.0091	1.0256	1.0033	1.0376	1.0085
Free Cash Flow[1] (C$)	**9,208**	**5,628**	**16,249**	**13,667**	**30,414**	**9,312**
Free Cash Flow per Share (C$)[7]	0.1842	0.1268	0.3359	0.3080	0.6781	0.2363
Declared dividends on Shares (C$)	**7,511**	**9,542**	**14,482**	**19,084**	**28,480**	**35,341**
Declared dividend per Share (C$)[7]	$ 0.1503	$ 0.2150	$ 0.2994	$ 0.4300	$ 0.6350	$ 0.8968

(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 Earnings from Operations, 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 $115.0 million Revolver 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 statements of cash flows 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 and 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 Q2 was 49,981,776, 48,371,210 for the 26-week period ended June 30, 2013 and 44,851,324 for the 52-week period ended June 30, 2013. The weighted average number of Shares outstanding for 2012 Q2 and 2012 YTD were 44,379,070 and 39,409,675 for the 52-week period ended July 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) Normalized to exclude non-recurring expenses related to the transitional costs related to recently acquired Orion parts business and NABI.

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 an 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 June 30, 2013, 6.3% (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 YTD by purchasing $44.3 million of Canadian dollars (under 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 Q2, the Company recorded realized foreign exchange loss of $0.04 million (2012 Q2: $1.7 million gain) relating specifically to settlements of the forward contracts.

At June 30, 2013, the Company had $44.3 million foreign exchange forward contracts to buy Canadian dollars that range in expiry dates from April 2013 to January 2014, the related liability of $1.4 million (2012: $0.1 million liability) is recorded on the consolidated statements of financial position as a current derivative financial instruments liability and the corresponding change in the fair value of the foreign exchange forward contracts has been recorded in the consolidated statements of net earnings and 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 Q2 (13-Weeks)**	**2012 Q2 (13-Weeks)**	**2013 YTD (26-Weeks)**	**2012 YTD (26-Weeks)**
Bus Manufacturing Revenue	$ 217,323	$ 197,369	$ 427,361	$ 393,602
Aftermarket Revenue	51,346	29,611	88,686	61,022
Total Revenue	$ 268,669	$ 226,980	$ 516,047	$ 454,624
Earnings from Operations[1]	6,794	10,686	13,290	17,946
Earnings before finance costs and income taxes	4,903	5,848	11,174	10,686
Earnings before income taxes	499	1,620	3,641	2,855
Net earnings for the period	1,684	3,398	5,197	3,838

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

Revenue

The Company generated consolidated revenue of $268.7 million for 2013 Q2, an increase of 18.4% compared to consolidated revenue for 2012 Q2 of $227.0 million, and consolidated revenue for 2013 YTD of $516.0 million, an increase of 13.5% from consolidated revenue for 2012 YTD of $454.6 million.

Revenue from bus manufacturing operations for 2013 Q2 was $217.3 million, an increase of 10.1% from $197.4 million in 2012 Q2, and revenue of $427.4 million for 2013 YTD increased 8.6% from $393.6 million for 2012 YTD. The increase in 2013 Q2 revenue primarily resulted from a 10.9% increase in total bus deliveries of 489 EUs in 2013 Q2 compared to 2012 Q2 deliveries of 441 EUs, offset by a 0.7% decrease in average selling price per EU in 2013 Q2 compared to 2012 Q2. The average selling price per EU in 2013 Q2 was $444.4 thousand which decreased slightly compared to $447.5 thousand in 2012 Q2. Bus deliveries in 2013 YTD totaled 979 EUs, also increased 10.9% compared to 883 EUs in 2012 YTD, while the average selling price per EU in 2013 YTD was $436.5 thousand, a decrease from $445.8 thousand in 2012 YTD. The increased deliveries were as a result of the Company being able to reduce the WIP levels during 2013 YTD. This resulted in WIP at the end of 2013 Q2 totaling 305 EUs, including 119 EUs of NABI's WIP at June 30, 2013.

Revenue from aftermarket operations in 2013 Q2 was $51.3 million, an increase of 73.4% compared to $29.6 million in 2012 Q2. Revenue from aftermarket operations for 2013 YTD of $88.7 million, an increase of 45.3% compared to $61.0 million in 2012 YTD. The increase in aftermarket operations revenue is primarily a result of increased volumes including incremental revenue from the Orion parts business subsequent to the March 1, 2013 acquisition date and a general in sales volume increase when comparing to 2012 YTD.

Cost of sales

The consolidated cost of sales for 2013 Q2 of $243.7 million increased by 17.0% from 2012 Q2 consolidated cost of sales of $208.3 million. 2013 YTD consolidated cost of sales of $470.0 million increased by 12.9% from 2012 YTD of $416.9 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 Q2 were $203.9 million compared to $186.7 million in 2012 Q2, an increase of 9.2%. The cost of sales from bus manufacturing operations of $401.9 million in 2013 YTD increased by 7.9% as compared to $372.5 million in 2012 YTD. This increase in cost of sales primarily relates to 10.9% more deliveries in 2013 YTD as compared to 2012 YTD, 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 $39.8 million in 2013 Q2 compared to $21.6 million in 2012 Q2 and $68.1 million in 2013 YTD as compared to $44.4 million in 2012 YTD, representing an increase of 52.7%, primarily as a result of the increase in sales volumes.

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

The consolidated SG&A for 2013 Q2 of $18.4 million increased 85.8% compared with $9.9 million in 2012 Q2. Consolidated SG&A expenses for 2013 YTD were $33.3 million which increased 55.4% compared to $21.4 million in 2012 YTD. The increase in 2013 YTD SG&A is primarily a result of $4.4 million of incremental costs to explore and assess strategic and corporate initiatives, $2.4 million of SG&A expenses for the recently acquired Orion parts business, $1.4 million of increased general SG&A for inflation and to support ongoing operations, and $1.7 million of increased expenses relating to the long-term incentive plan due to appreciation in stock price and the new stock option plan of NFI.

Realized foreign exchange gain

In 2013 Q2, the Company recognized a net realized gain of $0.2 million compared with a net realized gain of $1.8 million in 2012 Q2. Similarly, in 2013 YTD the Company recognized a net realized gain of $0.5 million as compared with a net realized gain of $1.7 million in 2012 YTD. During 2012 YTD the Company benefited from a greater amount of favourable settlements of foreign exchange contracts which resulted in an increased realized foreign exchange gain as compared to 2013 YTD.

Earnings from operations

Consolidated earnings from operations for 2013 Q2 in the amount of $6.8 million (2.5% of revenue) decreased 36.4% compared to earnings from operations in 2012 Q2 of $10.7 million (4.7% of revenue). 2013 YTD consolidated earnings from operations were $13.3 million (5.2% of revenue), which represents a 25.9% decrease as compared to $17.9 million (3.9% of revenue) in 2012 YTD.

The earnings from bus manufacturing operations (including amortization and depreciation) for 2013 Q2 were $3.4 million (1.6% of bus manufacturing revenue), a decrease of 39.3% compared to earnings of $5.6 million for 2012 Q2 (2.8% of bus manufacturing revenue). 2013 YTD earnings from bus manufacturing operations were $5.8 million (1.4% of revenue), a decrease of 26.6% compared to $7.1 million (1.6% of revenue) in 2012 YTD.

The earnings from aftermarket operations of $6.7 million (13.0% of aftermarket revenue) in 2013 Q2 increased 26.4% compared to 2012 Q2 earnings of $5.3 million (17.6% of aftermarket revenue). 2013 Q2 earnings from aftermarket operations increased primarily due to $1.6 million contribution from Orion's parts operations. In 2013 YTD, the earnings from aftermarket operations were $11.9 million (13.4% of aftermarket revenue), compared to $11.0 million (18.0% of aftermarket revenue) in 2012 YTD. The decrease in margin percentage is primarily due to the continued pricing pressure during the period.

Unallocated loss from operations in 2013 Q2 included $3.3 million and $4.4 million of costs associated with assessing strategic and corporate initiatives in 2013 YTD as compared to $0.2 million in both 2012 Q2 and 2012 YTD.

Unrealized foreign exchange loss

In 2013 Q2, the Company recognized a net unrealized loss of $1.9 million compared to a net unrealized gain of $0.7 million in 2012 Q2. These results consist of the following:

(Unaudited, U.S. dollars in thousands)	2013 Q2	2012 Q2	2013 YTD	2012 YTD
Unrealized gain on Canadian-denominated long-term debt	$ —	$ (1,244)	$ —	$ (120)
Unrealized loss on forward foreign exchanges contracts	1,384	97	1,368	211
Unrealized loss on other non-monetary assets/liabilities	507	455	748	176
	$ 1,891	$ (692)	$ 2,116	$ 267

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

In 2013 Q2, the Company recorded EBIT of $4.9 million compared to EBIT of $5.8 million in 2012 Q2. EBIT has been impacted by non-cash and non-recurring items as follows:

(Unaudited, U.S. dollars in thousands)	2013 Q2	2012 Q2	2013 YTD	2012 YTD
Non-cash and non-recurring charges (recovery):				
Costs associated with assessing strategic and corporate initiatives	$ 3,253	$ 154	$ 4,383	$ 169
Fair value adjustment to embedded derivatives	—	—	—	1,395
Unrealized foreign exchange loss (gain)	1,891	(692)	2,116	267
Past service pension costs	—	—	—	1,762
Stock-based compensation	98	—	98	—
Non-recurring transitional costs relating to business acquisitions	582	—	767	—
Loss on exercise of redemption right	—	5,530	—	5,530
Amortization	6,537	5,899	12,829	11,921
Total non-cash and non-recurring charges:	$ 12,361	$ 10,891	$ 20,193	$ 21,044

Absent these non-cash charges/recoveries, the 2013 Q2 EBIT would have been $17.3 million compared to $16.7 million in 2012 Q2.

Finance costs

The finance costs for 2013 Q2 were $4.4 million, an increase of 4.2% when compared to $4.2 million in 2012 Q2 while the finance costs in 2013 YTD of $7.5 million decreased 4.6% compared to $7.9 million in 2012 YTD.

Earnings before income taxes ("EBT")

EBT for 2013 Q2 were $0.5 million compared to EBT of $1.6 million in 2012 Q2 and EBT for 2013 YTD was $3.6 million compared to EBT of $2.9 million in 2012 YTD. The difference in the EBT 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 Q2 was $1.2 million, consisting of $3.7 million of current income tax expense and $4.9 million of deferred income tax expense recovered. In comparison, the income tax recovered for 2012 Q2 was $1.8 million, which consisted of $5.2 million of current income tax expense and $7.0 million of deferred income tax expense recovered. The income tax expense recovered for 2013 YTD was $1.6 million, consisting of $8.2 million of current income tax expense and $9.7 million of deferred income tax expense recovered. In comparison, the income tax recovered for 2012 YTD was $1.0 million, consisting of $6.2 million of current income tax expense and $7.2 million of deferred income tax expense recovered.

Net earnings

The Company reported net earnings of $1.7 million in 2013 Q2, which decreased compared to net earnings of $3.4 million in 2012 Q2, primarily as a result of $3.3 million increase in costs associated with acquisition of NABI and $0.6 million of non-recurring expenses related to the Orion parts business transition offset by the favourable impact caused by foreign currency translation which resulted from the weakening Canadian dollar. 2013 YTD net earnings of $5.2 million increased compared to 2012 YTD net earnings of $3.8 million, due to reduced finance costs and decrease in income tax expense.

Cash Flow

The cash flows of the Company are summarized as follows:

(Unaudited, U.S. dollars in thousands)	2013 Q2	2012 Q2	2013 YTD	2012 YTD
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	$ 12,468	$ 15,899	$ 24,525	$ 31,167
Interest paid	(4,739)	(4,441)	(7,664)	(8,611)
Income taxes paid	(3,069)	(3,352)	(13,337)	(7,582)
Net cash earnings	4,660	8,106	3,524	14,974
Changes in non-cash working capital items	36,050	(16,179)	12,593	(10,086)
Cash flow from operating activities	40,710	(8,073)	16,117	4,888
Cash flow from financing activities	43,300	70,062	94,851	57,928
Cash flow from investing activities	$ (74,294)	$ (2,191)	$ (106,423)	$ (5,851)

Cash flows from operating activities

The 2013 Q2 net operating cash inflow of $40.7 million is the result of $4.6 million of net cash earnings and a decrease in non-cash working capital of $36.1 million, compared to 2012 Q2 net operating cash outflow of $8.1 million which is the result of an increase of $16.2 million in non-cash working capital offset by $8.1 million of net cash earnings. The non-cash working capital changes during 2013 Q2 are primarily a result of acquiring NABI's working capital during the period.

Cash flow from financing activities

The Company's financing activities resulted in a net cash inflow of $43.3 million and net cash inflow of $70.1 million for 2013 Q2 and 2012 Q2, respectively. The cash inflow during 2013 Q2 primarily relates to $62.4 million of cash received from Shares issued to Marcopolo offset by the net repayment of $10.6 million of the Revolver and $7.1 million for dividends. The cash inflow during 2012 Q2 primarily relates to the $61.2 million cash generated by issuance of Debentures (net of issuance costs) and $19.0 million draw on the Revolver offset by $9.5 million for dividends.

Cash flow from investing activities

2013 Q2 investing activities resulted in a net cash outflow of $74.3 million compared to $2.2 million in 2012 Q2. The Company's investing activities for 2013 Q2 included a net cash outflow of $72.0 million to acquire NABI.

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

(Unaudited, U.S. dollars in thousands)	**2013 Q2**	**2012 Q2**	**2013 YTD**	**2012 YTD**
PPE expenditures	$ 2,622	$ 2,352	$ 3,635	$ 6,012
Less PPE expenditures funded as part of Orion parts business	—	—	(394)	—
Less PPE expenditures funded by capital leases	(331)	(294)	(423)	(295)
Acquisition of PPE reported on statement of cash flows	2,291	2,058	2,818	5,717
Less PPE expenditures funded by senior term loan for asset acquisitions	(282)	(1,448)	(497)	(2,428)
Cash PPE expenditure	2,009	610	2,321	3,289
Comprised of:				
Maintenance PPE expenditures	1,249	443	1,337	750
Growth PPE expenditures	760	167	984	2,539
	2,009	610	2,321	3,289

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 Revolver 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$9.2 million during 2013 Q2 while declaring dividends of C$7.5 million as compared to C$5.6 million of Free Cash Flow generated in 2012 Q2 and declared dividends of C$9.5 million. During 2013 YTD, New Flyer generated Free Cash Flow of C$16.2 million while declaring dividends of C$14.5 million as compared to C$13.7 million of Free Cash Flow generated in 2012 YTD and declared dividends of C$19.1 million. Management believes that sufficient Free Cash Flow will be generated to maintain the current dividend rate.

During 2013 Q2, the Company increased its cash by $9.8 million, primarily due to decreased investment in non-cash working capital items, such as decreased inventories and accounts receivables. The $80 million acquisition of NABI was funded with the cash received from Marcopolo's investment in NFI and $20 million draw on in the Company's Term Credit Facility.

The June 30, 2013 liquidity position of $83.4 million is comprised of available cash of $16.5 million and $66.9 million of available Revolver. As at June 30, 2013, there were $19.5 million of direct borrowings and $28.6 million of outstanding letters of credits related to the $115.0 million of Revolver. Management believes that these funds, together with the cash generated from the Company's operating activities 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, dividend payments 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 June 30, 2013, the Company is in compliance with the ratios.

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

	June 30, 2013	March 31, 2013	December 30, 2012
Total Leverage Ratio (must be less than 3.25)	1.89	2.78	2.52
Interest Coverage Ratio (must be greater than 3.00)	6.81	4.34	4.23

Interest rate risk

In connection with the Credit Facility, the Company has rolled over the existing interest rate swap designed to hedge floating rate exposure for the term of the Credit Facility on $142 million of drawn term loan. The new interest rate swap fixes the interest rate at 1.46% plus the applicable interest margin until April 2017. In comparison, the interest rate swap in place prior to the closing of the Credit Facility fixed the interest rate at 1.90% plus the applicable interest margin until April 2014. The fair value of the interest rate swap liability of $2.5 million at June 30, 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 net earnings and comprehensive income.

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

	June 30, 2013	December 30, 2012
Current, including holdbacks	$ 171,864	$ 104,759
Past due amounts but not impaired		
1 – 60 days	10,009	6,251
Greater than 60 days	1,497	2,525
Less: allowance for doubtful accounts	(84)	(75)
Total accounts receivables, net	$ 183,286	$ 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 June 30, 2013:

US dollars in thousands	Total	2013	2014	2015	2016	2017	Post 2017
Senior term loan	$ 160,750	$ 2,500	$ 5,000	$ 5,000	$ 5,000	$ 143,250	$ —
Convertible debentures	81,248	2,031	4,062	4,062	4,062	67,031	—
Other long-term liabilities	11,250	1,000	3,000	3,000	2,250	1,000	1,000
Finance leases	3,512	763	1,273	642	516	266	52
Operating leases	46,574	2,598	4,905	4,128	4,326	4,518	26,099
	$ 303,334	$ 8,892	$ 18,240	$ 16,832	$ 16,154	$ 216,065	$ 27,151

As at June 30, 2013, outstanding surety bonds guaranteed by the Company amounted to $169.7 million, representing an increase compared to $114.6 million at March 31, 2013. The estimated maturity dates of the surety bonds outstanding at June 30, 2013 range from July 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 June 30, 2013, letters of credit amounting to $28.6 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 are 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 was required to submit the Option Plan for approval by NFI's shareholders. The Option Plan and the ratification of the grant of the Options were approved by NFI's shareholders at the annual general meeting on May 9, 2013. The Options will expire on March 26, 2021. All of the Options have been granted to insiders. The Options will become vested as to one-quarter on the first anniversary of the grant date and an additional one-quarter on the second, third and fourth anniversary of the grant date. Each Option must be exercised no later than eight years after the grant date, at which time each Option will expire. No Options may be granted under the Option Plan after March 21, 2023.

All 490,356 originally granted Options are still outstanding at June 30, 2013. None of these Options have been vested or forfeited.

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.

In preparing the 2012 YTD 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. 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. Refer to March 31, 2013 interim condensed consolidated financial statements for details regarding adjusted amounts.

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. There is currently no mandatory effective date. 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.

The Company has limited its design of ICFR to exclude controls, policies and procedures of a business (NABI) that the Company acquired not more than 365 days before the end of the financial period to which this MD&A relates.

Management believes there have been no changes in the Company's ICFR during 2013 Q2 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 has limited its design of disclosure controls and procedures to exclude controls, policies and procedures of a business (NABI) that the Company acquired not more than 365 days before the end of the financial period to which this MD&A relates. The Company's CEO and CFO have concluded that disclosure controls and procedures as at December 30, 2012 were effective.

On June 21, 2013, the Company acquired 100% of the voting equity interest in NABI-Optima Holdings Inc. from an affiliate of Cerberus Capital Management, L.P. for cash consideration of approximately $80.0 million, virtually all for the satisfaction of affiliate debt. During the 9 days between the acquisition date and June 30, 2013, NABI produced revenues of approximately $8.4 million and net loss of approximately $2.3 million, which have been recorded in the unaudited interim condensed consolidated statement profit or loss and total comprehensive income for the 13 week period ending June 30, 2013. A summary of the assets acquired and liabilities assumed is as follows:

(Unaudited, U.S. dollars in thousands)		
Current assets	$	118,853
Non-current assets		60,187
Current liabilities		(88,938)
Non-current liabilities		(10,102)
Cash purchase price	$	80,000

Interim Condensed Consolidated Financial Statements of

NEW FLYER INDUSTRIES INC.

June 30, 2013

(Unaudited)

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NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET EARNINGS AND COMPREHENSIVE INCOME

For the period ended June 30, 2013

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

	13-Weeks Ended June 30, 2013	13-Weeks Ended July 1, 2012	**26-Weeks Ended June 30, 2013**	26-Weeks Ended July 1, 2012
Revenue (note 14)	$ 268,669	$ 226,980	$ 516,047	$ 454,624
Cost of sales (note 4)	243,738	208,265	469,960	416,911
Gross profit	24,931	18,715	46,087	37,713
Sales, general and administration costs and other operating expenses	18,356	9,877	33,304	21,429
Foreign exchange gain (note 13b)	(219)	(1,848)	(507)	(1,662)
Earnings from operations	6,794	10,686	13,290	17,946
Unrealized foreign exchange loss (gain) on non-current monetary items	1,891	(692)	2,116	267
Loss on exercise of redemption right	—	5,530	—	5,530
Fair value adjustment to embedded derivatives	—	—	—	1,395
Earnings before interest and income taxes	4,903	5,848	11,174	10,754
Finance costs				
Interest on long-term debt and convertible debentures	2,142	3,395	4,259	6,482
Accretion in carrying value of long-term debt and convertible debentures	581	128	1,149	246
Other interest and bank charges	817	922	1,629	1,440
Fair value adjustment on interest rate swap	864	(217)	496	(269)
	4,404	4,228	7,533	7,899
Earnings before income tax expense	499	1,620	3,641	2,855
Income tax expense (recovered) (note 6)				
Current income taxes	3,685	5,233	8,173	6,195
Deferred taxes (recovered)	(4,870)	(7,011)	(9,729)	(7,178)
	(1,185)	(1,778)	(1,556)	(983)
Net earnings for the period	$ 1,684	$ 3,398	$ 5,197	$ 3,838
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	1,684	3,398	5,197	4,226
Net earnings per share (basic) (note 10)	$ 0.03	$ 0.08	$ 0.11	$ 0.09
Net earnings per share (diluted) (note10)	$ 0.03	$ 0.07	$ 0.11	$ 0.08

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

June 30, 2013

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

	June 30, 2013	December 30, 2012	January 1, 2012 (note 2.4)
Assets			
Current			
Cash	$ 16,473	$ 11,182	$ 10,133
Accounts receivable (note 3,13d)	183,286	113,460	115,850
Income taxes recoverable	968	—	—
Inventories (note 4)	167,946	124,712	93,491
Derivative financial instruments (note 13b,c)	—	—	145
Prepaid expenses and deposits	9,345	4,724	5,077
	378,018	254,078	224,696
Property, plant and equipment	57,163	42,024	37,397
Embedded derivative instruments	—	—	3,684
Unused investment tax credits	21,190	23,262	23,766
Deferred tax assets (note 6)	52,168	49,332	36,558
Goodwill and intangible assets (note 5)	577,585	528,528	544,361
	$ 1,086,124	$ 897,224	$ 870,462
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 220,615	$ 150,828	$ 152,207
Income taxes payable	—	6,756	4,964
Deferred revenue	22,783	19,190	1,897
Provision for warranty costs (note 16)	35,603	20,106	32,808
Current portion of long-term debt (note 7)	19,458	40,035	9,000
Derivative financial instruments (note 13b,c)	1,382	14	—
Current portion of deferred compensation obligation	—	—	1,404
Current portion of obligations under finance leases	1,261	1,857	2,377
	301,102	238,786	204,657
Accrued benefit liability	5,632	8,973	9,136
Obligations under finance leases	2,080	2,314	2,102
Deferred compensation obligation	3,335	1,233	262
Other long-term liabilities (note 18)	10,102	—	—
Deferred tax liabilities (note 6)	116,456	122,244	119,088
Long-term debt (note 7)	139,981	120,950	166,835
Convertible debentures (note 8)	57,522	56,760	—
Derivative financial instruments (note 13b, c)	2,472	1,976	2,811
	638,682	553,236	504,891
Commitments and contingencies (note 15)			
Shareholders' equity			
Share capital (note 9)	589,208	476,918	476,918
Stock option reserve (note 17)	100	—	—
Equity component of convertible debentures (note 8)	3,841	3,841	—
Accumulated other comprehensive loss	(6,490)	(6,490)	(4,851)
Deficit	(139,217)	(130,281)	(106,496)
	447,442	343,988	365,571
	$ 1,086,124	$ 897,224	$ 870,462

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

Authorized for issue by the board of directors on August 6, 2013.

NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended June 30, 2013

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

	Share Capital	Equity Component of Convertible Debentures (note 8)	Stock Option Reserve	Accumulated Other Comprehensive Loss	Deficit	Total Shareholders' Equity
Balance, January 1, 2012 (note 2.4)	$ **476,918**	$ **—**	$ —	$ **(4,851)**	$ **(106,496)**	$ **365,571**
Net earnings for the period	—	—	—	—	3,838	3,838
Other comprehensive income for the period	—	—	—	388	—	388
Dividends declared on common shares	—	—	—	—	(19,006)	(19,006)
Equity component of convertible debentures (net of tax $1,421)	—	3,841	—	—	—	3,841
Balance, July 1, 2012	**476,918**	**3,841**	**—**	**(4,463)**	**(121,664)**	**354,632**
Net earnings for the period	—	—	—	—	5,452	5,452
Other comprehensive loss for the period	—	—	—	(2,027)	—	(2,027)
Dividends declared on common shares	—	—	—	—	(14,069)	(14,069)
Balance, December 30, 2012	**476,918**	**3,841**	**—**	**(6,490)**	**(130,281)**	**343,988**
Net earnings for the period	—	—	—	—	5,197	5,197
Dividends declared on common shares	—	—	—	—	(14,133)	(14,133)
Share based compensation	—	—	100	—	—	100
Shares issued	113,782	—	—	—	—	113,782
Share issuance costs (net of tax $560)	(1,492)	—	—	—	—	(1,492)
Balance, June 30, 2013	$ **589,208**	$ **3,841**	$ **100**	$ **(6,490)**	$ **(139,217)**	$ **447,442**

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

For the period ended June 30, 2013

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

Cash generated by (used in)	**13-Weeks Ended June 30, 2013**	13-Weeks Ended July 1, 2012	**26-Weeks Ended June 30, 2013**	26-Weeks Ended July 1, 2012
Operating activities				
Net earnings for the period	$ 1,684	$ 3,398	$ 5,197	$ 3,838
Income tax (recovered) expense	(1,185)	(1,778)	(1,556)	(983)
Depreciation of plant and equipment	2,107	1,901	4,077	3,925
Amortization of intangible assets	4,430	3,998	8,752	7,996
Finance costs recognized in profit or loss	4,404	4,228	7,533	7,899
Unrealized foreign exchange (gain) loss on non-current monetary items	1,891	(692)	2,116	267
Foreign exchange gain on cash held in foreign currency	(125)	112	(746)	(97)
Share based compensation	98	—	98	—
Fair value adjustment to embedded derivatives	—	—	—	1,395
Realized (unrealized) investment tax credits	799	(373)	2,072	504
Loss on exercise of redemption right	—	5,530	—	5,530
Defined benefit expense	647	438	1,304	3,427
Defined benefit funding	(2,282)	(863)	(4,322)	(2,534)
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	12,468	15,899	24,525	31,167
Changes in non-cash working capital items (note 11)	36,050	(16,179)	12,593	(10,086)
Cash generated by (used in) operations before interest and income taxes paid	48,518	(280)	37,118	21,081
Interest paid	(4,739)	(4,441)	(7,664)	(8,611)
Income taxes paid	(3,069)	(3,352)	(13,337)	(7,582)
Net cash generated by (used in) operating activities	40,710	(8,073)	16,117	4,888
Financing activities				
Repayment of obligations under finance leases	(506)	(629)	(1,214)	(1,274)
Share issuance	62,378	—	113,782	—
Costs associated with share issuance	(868)	—	(2,051)	—
Proceeds from issuance (repayment) of long-term debt	(10,646)	19,000	(1,933)	17,000
Proceeds from issue of convertible debentures	—	65,000	—	65,000
Costs associated with convertible debenture issuance	—	(3,789)	—	(3,789)
Dividends paid	(7,058)	(9,520)	(13,733)	(19,009)
Net cash generated by financing activities	43,300	70,062	94,851	57,928
Investing activities				
Net cash used in acquisition of NABI business (note 1.2)	(72,003)	—	(72,003)	—
Acquisition of Orion aftermarket parts business (note 1.3)	—	—	(20,608)	—
Acquisition of accounts receivables connected with purchase of Orion aftermarket parts business (note 1.3)	—	—	(5,920)	—
Acquisition of intangible assets	—	(134)	(5,074)	(134)
Acquisition of property, plant and equipment	(2,291)	(2,057)	(2,818)	(5,717)
Net cash used in investing activities	(74,294)	(2,191)	(106,423)	(5,851)
Effect of foreign exchange rate on cash	125	(112)	746	97
Increase in cash	9,841	59,686	5,291	57,062
Cash — beginning of period	6,632	7,509	11,182	10,133
Cash — end of period	$ 16,473	$ 67,195	$ 16,473	$ 67,195

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 leading manufacturer of heavy-duty transit buses in the United States and Canada. 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 August 6, 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 C$116.4 million to acquire 11,087,834 newly issued Shares, representing a 19.99% stake in the Company. Each Share was issued at a price of C$10.50 per Share. 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. On June 21, 2013, the Company issued an additional 6,162,304 Shares to Marcopolo for proceeds of C$64.7 million which were issued as part of the second and final tranche of the strategic equity investment in New Flyer.

1.2 Acquisition of NABI

On June 21, 2013, the Company acquired 100% of the voting equity interest in NABI-Optima Holdings Inc. ("NABI") from an affiliate of Cerberus Capital Management, L.P. for cash consideration of approximately $80.0 million, virtually all for the satisfaction of affiliate debt. The purchase price was funded by the proceeds from the C$64.7 million equity investment by Marcopolo and an additional $20 million that was drawn from the Company's renewed senior secured credit facility. The acquisition has been accounted for using the acquisition method. The fair values of the identifiable assets and liabilities acquired have been based on management's best estimates and valuation techniques as at June 21, 2013 (the "Acquisition Date").

Cash purchase price	$	80,000
Less: NABI's cash acquired		7,997
Net cash used in acquisition		72,003
Accounts receivable		54,493
Inventories		55,575
Prepaid expenses and deposits		788
Property, plant and equipment		15,558
Accounts payable and accrued liabilities		(62,734)
Deferred revenue		(10,794)
Provision for warranties		(15,410)
Other long-term liabilities		(10,102)
Net tangible assets acquired		27,374
Trade names		7,100
Patent and licenses		3,200
Customer relationships		26,000
Identifiable intangible assets acquired		36,300
Goodwill acquired	$	8,329

The acquisition includes bus manufacturing operations in Anniston, Alabama, a parts distribution center in Delaware, Ohio, and a service center in Jurupa Valley, California. The transaction excluded the discontinued operations in Hungary and substantially all related assets and liabilities.

1.2 Acquisition of NABI (Continued)

The Company operates the NABI bus and NABI parts operations under the names NABI Bus, LLC and NABI Parts, LLC, respectively, within the New Flyer group of companies.

The goodwill acquired is largely attributable to the synergies and economies of scale expected from combining the operations of NFI and NABI. 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 assets acquired and liabilities assumed.

During the 9 days between the Acquisition Date and June 30, 2013, NABI produced revenues of approximately $8.4 million and net loss of approximately $2.3 million, which have been recorded in the unaudited interim condensed consolidated statement profit or loss and total comprehensive income for the 13 week period ending June 30, 2013. The net loss amount reflects $3.1 million of transaction costs.

If NABI had been acquired on December 31, 2012, the incremental consolidated pro-forma revenue and income for the 26-week period ending June 30, 2013 would have been as follows:

	Results as stated	Incremental	Pro-forma results
Revenue	$ 516,047	$ 231,493	$ 747,540
Total comprehensive income	5,197	4,096	9,293

1.3 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, which was fully collected. 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.

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.

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 International Financial Reporting Standards ("IFRS") standards as described in note 2.4. and the accounting policies related to the new share based payment plan, 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.

Share based payment transactions

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period in which the options vest. The offset to the recorded cost is to share-based payment reserve. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payment reserve is transferred to share capital. Upon expiry, the recorded value is transferred to deficit.

At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the consolidated statements of net earnings and comprehensive income such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve. Where the terms and conditions of options are modified, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statements of net earnings and comprehensive income.

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 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 and estimates 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 the Company's subsidiaries: New Flyer Holdings, Inc. ("NFL Holdings"), Transit Holdings, Inc. ("THI"), New Flyer of America Inc. ("NFAI"), NFI ULC, 1176846 Alberta ULC, TCB Enterprises, LLC, NABI Bus LLC, NABI Parts LLC, Transit Acquisition LLC, Transit Parts Holdings Inc. and Transit Finco Inc.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 26-week period ended July 1, 2012 ("2012 YTD").

Net earnings and total comprehensive income impact		26-weeks ended July 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)

In preparing the 2012 YTD 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. 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. Refer to March 31, 2013 interim condensed consolidated financial statements for details regarding adjusted amounts.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. There is currently no mandatory effective date. 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

	June 30, 2013	December 30, 2012
Trade	$ 177,278	$ 108,635
Other	6,008	4,825
	$ 183,286	$ 113,460

4. INVENTORIES

	June 30, 2013	December 30, 2012
Raw materials	$ 103,564	$ 59,338
Work in process	62,575	62,753
Finished goods	1,807	2,621
	$ 167,946	$ 124,712

4. INVENTORIES (Continued)

	13-Weeks Ended June 30, 2013	13-Weeks Ended July 1, 2012	26-Weeks Ended June 30, 2013	26-Weeks Ended July 1, 2012
Cost of inventories recognized as expense and included in cost of sales	$ 224,351	$ 191,707	$ 431,095	$ 384,922
Write-down of inventory to net realizable value in cost of sales	260	259	490	617
Reversals of a previous write-down in inventory	—	192	—	192

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, 1.3 and below)	9,406	7,100	9,182[1]	32,121	57,809
Amortization charge	—	—	(4,769)	(3,983)	(8,752)
June 30, 2013 net book value	$ 211,574	$ 161,300	$ 59,212	$ 145,499	$ 577,585
Recorded as:					
Cost	$ 211,574	$ 161,300	$ 109,687	$ 190,821	$ 673,382
Accumulated amortization	—	—	50,475	45,322	95,797
June 30, 2013 net book value	$ 211,574	$ 161,300	$ 59,212	$ 145,499	$ 577,585

[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 are 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

	June 30, 2013	December 30, 2012
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	$ 45,059	$ 41,488
Deferred tax asset to be recovered within 12 months	12,360	13,477
	57,419	54,965
Deferred tax liabilities:		
Deferred tax liability to be reversed after more than 12 months	(116,258)	(119,996)
Deferred tax liability to be reversed within 12 months	(5,449)	(7,881)
	(121,707)	(127,877)
	$ (64,288)	$ (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.

6. DEFERRED TAXES AND INCOME TAX EXPENSE (Continued)

The offset amounts by tax jurisdiction presented on the statements of financial position are as follows:

	June 30, 2013	December 30, 2012
As presented on statements of financial position:		
Deferred tax assets	$ 52,168	$ 49,332
Deferred tax liabilities	(116,456)	(122,244)
	$ (64,288)	$ (72,912)

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

	13-Weeks Ended June 30, 2013	13-Weeks Ended July 1, 2012	**26-Weeks Ended June 30, 2013**	26-Weeks Ended July 1, 2012
Beginning of period	$ (68,339)	$ (84,157)	$ (72,912)	$ (82,530)
Exchange differences	(915)	(463)	(1,351)	(204)
Tax recorded through net earnings	4,870	7,011	9,729	7,178
Tax recorded through other comprehensive income	—	—	—	(234)
Benefit of loss carry forward and share issuance costs recognized against income taxes payable	(138)	(206)	(314)	(2,025)
Tax recorded through equity	234	(1,421)	560	(1,421)
End of period	$ (64,288)	$ (79,236)	$ (64,288)	$ (79,236)

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	Goodwill and Intangibles	Other	**Total**
December 30, 2012	$ (451)	$ (122,542)	$ (4,884)	$ (127,877)
Tax reversed (charged) through net earnings	119	3,019	3,032	6,170
June 30, 2013	$ (332)	$ (119,523)	$ (1,852)	$ (121,707)

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	1,328	1,766	(1,169)	(2,216)	3,850	3,559
Tax recorded through equity	—	—	—	560	—	560
Benefit of loss carry forward and share issuance costs recognized against income taxes payable	—	—	—	(314)	—	(314)
Exchange differences	(321)	(382)	(87)	(378)	(183)	(1,351)
June 30, 2013	$ 13,359	$ 16,094	$ 2,118	$ 12,181	$ 13,667	$ 57,419

6. DEFERRED TAXES AND INCOME TAX EXPENSE (Continued)

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

	13-Weeks Ended June 30, 2013	13-Weeks Ended July 1, 2012	**26-Weeks Ended June 30, 2013**	26-Weeks Ended July 1, 2012
Earnings before income tax expense	$ 499	$ 1,620	$ 3,641	$ 2,855
Tax calculated using a 35% U.S. tax rate	174	567	1,274	999
Tax effect of:				
Withholding and other taxes	126	391	247	250
Non-deductible expenses	305	909	53	1,437
Revision of tax estimates	378	(36)	698	(68)
Rate differential on income taxed at other than U.S. statutory rate	(231)	(1,627)	(581)	(2,305)
Foreign exchange impact	(1,520)	(1,397)	(2,601)	(677)
State taxes	(279)	(659)	(477)	(627)
Other	(138)	74	(169)	8
Income tax expense (recovered) for the period	$ (1,185)	$ (1,778)	$ (1,556)	$ (983)

	13-Weeks Ended June 30, 2013	13-Weeks Ended July 1, 2012	**26-Weeks Ended June 30, 2013**	26-Weeks Ended July 1, 2012
Current income taxes for the period	$ 3,685	$ 5,233	$ 8,173	$ 6,195
Deferred income taxes (recovered) for the period	(4,870)	(7,011)	(9,729)	(7,178)
Income tax expense (recovered) for the period	$ (1,185)	$ (1,778)	$ (1,556)	$ (983)

7. LONG-TERM DEBT

	Final Maturity	Face Value	Unamortized Transaction Costs	**Net Book Value June 30, 2013**	Net Book Value December 30, 2012
Term Credit Facility	April 2017	$ 142,000	$ 2,019	$ 139,981	$ 120,950
Revolving Credit Facility (“Revolver”)	April 2017	19,458	—	19,458	40,035
		161,458	2,019	159,439	160,985
Less: current portion of long-term debt		19,458	—	19,458	40,035
		$ 142,000	$ 2,019	$ 139,981	$ 120,950

On June 21, 2013, concurrent with the acquisition of NABI, the Company completed a fourth amended and restated credit agreement (the “Credit Facility”) which extended its senior secured credit facility to April 24, 2017 while increasing the total amount of the Credit Facility to $257 million, an increase of $45 million. The borrowing limit of the Revolver has been increased to $115 million from $90 million to support working capital fluctuations. The Revolver includes a $55.0 million letter of credit sub-facility of which $28.6 million of outstanding letters of credit were drawn at June 30, 2013. The borrowing limit of the term facility (the “Term Credit Facility”) has been increased to $142 million from $122 million. In addition, certain financial covenants and definitions have been adjusted to reflect the acquisition of NABI. The credit agreement also maintains an accordion feature of $75 million for future investment or acquisition opportunities.

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 June 30, 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 are 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 are 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 giving 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 the principal amount of Debentures by 95% of the current market price of the Shares on the fifth Trading Day preceding the Maturity Date.

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

8. CONVERTIBLE DEBENTURES (Continued)

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 million 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 June 30, 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	1,573	—	1,573	811
Deferred taxes	—	(1,421)	(1,421)	(1,421)
Net book value	$ 57,522	$ 3,841	$ 61,363	$ 60,601

9. SHARE CAPITAL

Authorized			
Unlimited	Shares		
Issued		**June 30, 2013**	December 30, 2012
55,466,904	Shares (December 30, 2012: 44,379,070)	$ 589,208	$ 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 on February 15, 2013	4,926	51,404
Shares issued to Marcopolo on June 21, 2013	6,162	62,378
Less: Share issuance costs (net of tax of $560)	—	(1,492)
Balance - June 30, 2013	55,467	$ 589,208

On June 21, 2013, the Company issued 6,162,304 Shares to Marcopolo for proceeds of C$64.7 million. The Shares were issued as part of the second and final tranche of the strategic equity investment in New Flyer (note 1.1).

The dividends declared in the second quarter of 2013 and the second quarter of 2012 were $7,263 ($0.15 per Share) and $9,456 ($0.21 per Share) respectively. Dividends of $2,571 ($0.05 per Share) were proposed or declared after June 30, 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 June 30, 2013	13-Weeks Ended July 1, 2012	**26-Weeks Ended June 30, 2013**	26-Weeks Ended July 1, 2012
Net earnings attributable to equity holders	$ 1,684	$ 3,398	$ 5,197	$ 3,838
Add: Interest expense on Debentures, net of tax	1,023	301	2,039	301
Net earnings used to determine diluted earnings per Share	2,707	3,699	7,236	4,139
Weighted average number of Shares in issue	49,981,776	44,379,070	48,371,210	44,379,070
Add: assumed conversion of stock options (note 17)	490,356	—	490,356	—
Add: assumed conversion of Debentures	6,500,000	10,526,316	6,500,000	10,526,316
Weighted average number of Shares for diluted earnings per Share	56,972,132	54,905,386	55,361,566	54,905,386
Net earnings per Share (basic)	0.03	0.08	0.11	0.09
Net earnings per Share (diluted)	$ 0.03	$ 0.07	$ 0.11	$ 0.08

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 Shares outstanding assuming conversion of all dilutive potential Shares using closing Share price at the period end date. 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. 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 potential Shares are considered antidilutive and are disregarded in calculating diluted earnings per Share.

11. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	**13-Weeks Ended June 30, 2013**	13-Weeks Ended July 1, 2012	**26-Weeks Ended June 30, 2013**	26-Weeks Ended July 1, 2012
Accounts receivable	$ 16,288	$ (361)	$ (9,393)	$ 4,195
Income taxes recoverable	(286)	1,272	(968)	—
Inventories	13,023	(1,211)	24,448	(272)
Prepaid expenses and deposits	(2,971)	104	(3,833)	1,340
Accounts payable and accrued liabilities	17,194	(10,691)	16,209	(7,511)
Income taxes payable	—	760	(6,756)	(4,204)
Deferred revenue	(594)	357	(7,201)	(306)
Provision for warranty costs	461	(3,312)	87	(6,511)
Other	(7,065)	(3,097)	—	3,183
	$ 36,050	(16,179)	$ 12,593	$ (10,086)

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 is 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
Other long-term liabilities	Other Liabilities
Long-term debt	Other Liabilities
Derivative financial instruments and embedded derivatives	Fair value through profit or loss

(b) Risk Management

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

The use of derivatives allows the transfer, modification and reduction of current and expected risks, including interest rate, foreign exchange and other market risks. The Company uses derivative financial instruments to manage interest rate and foreign exchange risks in accordance with its risk management policies. Certain derivative instruments, while providing effective economic hedges, are not designated as hedges for accounting purposes. Changes in the fair value of any derivatives that are not designated as hedges for accounting purposes are recognized within “finance costs” or “unrealized foreign exchange loss on non-current monetary items” in the 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 rolled over the existing interest rate swap designed to hedge floating rate exposure for the term of the Credit Facility on $142,000 of drawn term loan. The new interest rate swap fixes the interest rate at 1.46% plus the applicable interest margin until April 2017. In comparison, the interest rate swap in place prior to the closing of the Credit Facility fixed the interest rate at 1.90% plus the applicable interest margin until April 2014. The fair value of the interest rate swap liability at June 30, 2013 is $2,472 (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 June 30, 2013, the Company had a cash balance of $16,473 (December 30, 2012: $11,182) and the $115,000 Revolver. As at June 30, 2013, there was $19,458 of direct borrowings (December 30, 2012: $40,035) and $28,646 of outstanding letters of credit (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

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

to meet its current and future financial obligations as they come due, as well as to provide funds for its financing requirements, capital expenditures and other needs for the foreseeable future.

(d) Credit risk

The carrying amount of accounts receivable is reduced through the use of an allowance account and the amount of the loss is recognized in the interim condensed consolidated statements of net earnings 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 net earnings and total comprehensive income.

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

	June 30, 2013	December 30, 2012
Current, including holdbacks	$ 171,864	$ 104,759
Past due amounts but not impaired		
1 – 60 days	10,009	6,251
Greater than 60 days	1,497	2,525
Less: Allowance for doubtful accounts	(84)	(75)
Total accounts receivables, net	$ 183,286	$ 113,460

As at June 30, 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 June 30, 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:

	June 30, 2013	December 30, 2012
Total Leverage Ratio (must be less than 3.25)	1.89	2.52
Interest Coverage Ratio (must be greater than 3.00)	6.81	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 $1,535 (2012 Q2: $1,525), which have been recognized into earnings during the second quarter of 2013, 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 June 30, 2013			
	Bus Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 217,323	$ 51,346	$ —	$ 268,669
Operating costs and expenses	208,701	47,986	—	256,687
Earnings (loss) before income tax expense	8,622	3,360	(11,483)	499
Total assets	456,436	178,710	450,978	1,086,124
Addition of capital expenditures	1,451	446	—	1,897
Addition of goodwill and intangibles	7,893	36,736	—	44,629
Goodwill	149,376	62,198	—	211,574

	13-Weeks Ended July 1, 2012			
	Bus Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 197,369	$ 29,611	$ —	$ 226,980
Operating costs and expenses	187,707	24,536	—	212,243
Earnings (loss) before income tax expense	9,662	5,075	(13,117)	1,620
Total assets	373,971	100,231	450,592	924,794
Addition of capital expenditures	2,057	—	—	2,057
Addition of intangibles	—	134	—	134
Goodwill	148,483	53,685	—	202,168

14. SEGMENT INFORMATION (Continued)

	26-Weeks Ended June 30, 2013			
	Bus Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 427,361	$ 88,686	$ —	$ 516,047
Operating costs and expenses	410,399	80,036	—	490,435
Earnings (loss) before income tax expense	16,962	8,650	(21,971)	3,641
Total assets	456,436	178,710	450,978	1,086,124
Addition of capital expenditures	1,973	845	—	2,818
Addition of goodwill and intangibles	7,920	49,889	—	57,809
Goodwill	149,376	62,198	—	211,574

	26-Weeks Ended July 1, 2012			
	Bus Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 393,602	$ 61,022	$ —	$ 454,624
Operating costs and expenses	376,217	50,202	—	426,419
Earnings (loss) before income tax expense	17,385	10,820	(25,350)	2,855
Total assets	373,971	100,231	450,592	924,794
Addition of capital expenditures	5,693	24	—	5,717
Addition of intangibles	—	134	—	134
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 June 30, 2013 range from July 2013 to June 2015.

At June 30, 2013, outstanding surety bonds guaranteed by the Company totaled $169,747 (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 $115,000 Revolver. As at June 30, 2013, letters of credit totaling $28,646 (December 30, 2012: $14,207) remain outstanding under the letter of credit facility.

As at June 30, 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 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		12,475
Assumed on June 21, 2013 relating to NABI acquisition		15,410
Amounts used/realized		(11,946)
Unwinding of discount and effect of changes in the discount rate		(8)
Exchange differences		(434)
June 30, 2013	$	35,603

17. SHARE-BASED COMPENSATION

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 are 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 was required to submit the Option Plan for approval by NFI's shareholders. The Option Plan and the ratification of the grant of the Options were approved by NFI's shareholders at the annual general meeting on May 9, 2013 (the "grant date"). The Options will expire on March 26, 2021. All of the Options have been granted to insiders. The Options will become vested as to one-quarter on the first anniversary of the grant date and an additional one-quarter on the second, third and fourth anniversary of the grant date. Each Option must be exercised no later than eight years after the grant date, at which time each Option will expire. No Options may be granted under the Option Plan after March 21, 2023.

The grant date fair value was measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The fair values were calculated as of May 9, 2013. The inputs used in the measurement of the fair values of the share-based payment plans granted this year are the following:

- Fair value at grant date C$1.55
- Share price C$10.20
- Exercise price C$10.20
- Expected volatility (weighted average volatility) 31.6%
- Option life (expected weighted average life) 5.5 years
- Expected dividends 5.74%
- Risk-free interest rate (based on government bonds) 1.23% to 1.61%

All 490,356 originally granted Options are still outstanding at June 30, 2013. None of these Options have been vested or forfeited.

18. OTHER LONG-TERM LIABILITIES

Prior to the Acquisition Date, NABI entered into a settlement agreement with a customer which provided for an aggregate payment obligation of $9.25 million, of which $6.25 million remains to be paid by NABI. In addition, NABI is required to contribute an additional aggregate amount of at least $5.0 million over the next five years in the form of parts and services rebates (or cash in lieu thereof). NABI's obligations under the settlement agreement remain in place following the acquisition. The following is a schedule of future minimum payments (cash and parts and service rebates). The fair value of the settlement obligation is recorded based on discounted future payments.

		Total
Due October 1, 2013	$	1,000
2014		3,000
2015		3,000
2016		2,250
2017		1,000
2018		1,000
		11,250
Less: Future value discount		1,148
	$	10,102