May 7, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS ENDED MARCH 30, 2014

Information in this Management's Discussion and Analysis ("MD&A") relating to the financial condition and results of operations of New Flyer Industries Inc. ("NFI") is supplemental to, and should be read in conjunction with, NFI's interim condensed consolidated financial statements (including notes) (the "Financial Statements") for the 13-week period ended March 30, 2014 ("2014 Q1"). This MD&A contains forward-looking statements, which are subject to a variety of factors that could cause actual results to differ materially from those contemplated by the forward-looking statements. See "Forward-looking Statements". Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the factors described in the public filings of NFI available on SEDAR at www.sedar.com. The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and, except where otherwise indicated, are presented in U.S. dollars, representing the functional currency of NFI. Unless otherwise indicated, the financial information contained in this MD&A has been prepared in accordance with IFRS and references to "$" or "dollars" mean U.S. dollars.

MEANING OF CERTAIN REFERENCES

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

The common shares of NFI ("Shares") are traded on the Toronto Stock Exchange ("TSX") under the symbol "NFI" and NFI's 6.25% convertible unsecured subordinated debentures ("Debentures") are traded on the TSX under the symbol "NFI.DB.U". As at March 30, 2014, 55,469,404 Shares and $65.0 million aggregate principal amount of Debentures were outstanding. The Debentures are convertible at the holder's option into Shares at a conversion price of $10.00 per Share. 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 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", "forecasts", "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 limited 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 finance costs, income taxes, loss on exercise of redemption right, 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 finance costs, income taxes, depreciation and amortization; 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 exercise of redemption right, past service pension costs, realized investment tax credits ("ITCs"), stock-based compensation and costs associated with assessing strategic and corporate initiatives. "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 transitional costs relating to business acquisitions, costs associated with assessing strategic and corporate initiatives, past service pension costs, defined benefit expense, cash capital expenditures and principal payments on capital leases.

Management believes Earnings from Operations, EBITDA, Adjusted EBITDA and Free Cash Flow are useful measures in evaluating the performance of the Company. 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 headings "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, with its recently acquired subsidiary NABI Bus, LLC ("NABI Bus") is the leading manufacturer of heavy-duty transit buses in the United States and Canada. The Company is the industry technology leader and offers the broadest product line including drive systems powered by: clean diesel, natural gas and electric trolley as well as energy-efficient diesel-electric hybrid vehicles and now all-electric buses. All buses are supported by an industry-leading comprehensive warranty and support program, and service network. New Flyer and its subsidiary NABI Parts, LLC ("NABI Parts") also operate the 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. On a combined basis,

New Flyer and NABI have built approximately 32,000 buses since 1992, and support the approximate 10,000 Orion built buses still in active service

The New Flyer group of companies employ over 3,000 team members with manufacturing, fabrication, parts distribution and service centers in both Canada and the United States.

Industry Overview

Funding and the U.S. Economy

The current funding bill, MAP-21, expires on September 30, 2014.

On April 29, 2014, the U.S. Secretary of Transportation Anthony Foxx submitted a new surface transportation authorization legislation proposal to the U.S. Congress. The bill, known as the Grow America Act, is a four-year, $302 billion bill that authorizes highway, public transportation and passenger rail programs from 2015 through 2018. A one-time infusion of $150 billion into the Highway Trust Fund would eliminate the shortfall during the authorization period. The legislation provides $72 billion for public transportation, a nearly 70 percent increase over 2014 authorized amounts. The Grow America Act includes increases to address the bus and rail state of good repair backlog. The proposed bill also highlights changes to Buy America and local hiring rules. The proposal calls for changes to the Buy America requirements that would increase the U.S. content requirements for transit buses from the current 60 percent U.S. content to 70 percent U.S. content in 2016. The U.S. content requirement would then increase to 80 percent in 2017, 90 percent in 2018 and 100 percent in 2019. Management has not assessed the impact that the proposed new legislation, if passed in its current form, would have on the Company.

Management remains encouraged with the general improvement in the economic health of the U.S. and of the individual states. A preliminary report released on March 11, 2014 from the Rockefeller Institute reported state tax collections have increased by 3.0% in the fourth quarter of 2013 over the same quarter in the prior year - for the 16th consecutive quarter.

Recent Ridership Trends

The latest data from the American Public Transportation Association's (“APTA”) ridership report indicated an increase of 3.8% in all modes of U.S. transit ridership during the fourth quarter of 2013 compared with the previous year; including an increase in bus specific ridership of 0.6%. The same report indicates Canadian ridership decreased by 1.1% in all modes of transit ridership during the fourth quarter of 2013 as compared to the previous year; however, specific data on bus ridership is not available.

Demand for Heavy-Duty Transit Buses

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 “Active EUs” consists of: bids received with proposal in process and bids submitted and awaiting award. The bid universe consists of the pipeline of Active EUs and solicitations that management expects to be released by U.S. and Canadian transit agencies within a five-year horizon. Effective Q1 2014, the bid universe now includes MiDi® opportunities.

Period	Bids in Process (EUs)	Bids Submitted (EUs)	Active EUs	Forecasted Future Industry Procurement over 5 Years (EUs)(1)	Total Bid Universe (EUs)
2013 Q1	3,173	4,145	7,318	7,917	15,235
2013 Q2	3,620	4,869	8,489	9,608	18,097
2013 Q3	2,121	5,996	8,117	11,824	19,941
2013 Q4	909	5,329	6,238	12,354	18,592
2014 Q1	**3,626**	**2,045**	**5,671**	**15,567**	**21,328**

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

A brief reduction in procurement activity was experienced in late 2013 and early 2014, followed by a significant volume of new requests for proposals ("RFPs") being issued. The number of EUs in the total bid universe at the end of 2014 Q1 was 21,328 EUs compared to 15,235 EUs at the end of 2013 Q1, an increase of 40.0%. While the number of EUs included in RFPs received by New Flyer increased by 298.9% compared to the end of 2013 Q1, the total number of Active EUs at the end of 2014 Q1 dropped slightly to 5,671 EUs.

A number of active procurements were awarded in 2014 Q1 where purchase documentation was received from the customer for the base volume of EUs, but the customer indicated that an RFP for the option quantities would be issued at a later date. As a result, a total of 2,450 EUs were taken out of the Active EUs category in 2014 Q1 and placed back into the "Forecasted Future Industry Procurements over 5 years" category.

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 and 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 New Flyer, NABI, Orion and other competitors. To assess the aftermarket parts market outlook, the Company regularly monitors the change in aftermarket parts operating budgets of some of the largest transit authorities. Management's latest review indicates that the aftermarket parts industry is expected to continue to improve.

2014 First Quarter in Review

Bus order activity during 2014 Q1

New orders (firm and options) for New Flyer and NABI Bus for 2014 Q1 totaled 559 EUs. The new firm and option orders awarded to New Flyer for the last twelve months ("LTM") ending March 30, 2014 were 3,834 EUs compared to 3,596 EUs during the 52-week period ended March 31, 2013 ("2013 Q1 LTM"). Also, New Flyer was successful at converting 506 EUs of options during 2014 Q1, which contributed to the 883 EUs of options converted in 2014 Q1 LTM as compared to 1,046 EUs during 2013 Q1 LTM. In 2014 Q1, no option EUs expired.

	New Orders in Quarter (Firm and Option EUs)	LTM New Orders (Firm and Option EUs)	Option EU Conversions in Quarter	LTM Option EU Conversions
Q1 2013	2,004	3,596	224	1,046
Q2 2013	513	4,019	38	676
Q3 2013	2,431	6,003	116	568
Q4 2013	331	5,279	223	601
Q1 2014	559	3,834	506	883

At the end of 2014 Q1, new firm and option orders of 74 EUs were pending from customers where approval of the award had been made by the customer's board, council, or commission, as applicable, but purchase documentation had not yet been received by the Company. These firm and option orders are not yet included in the backlog.

At the end of 2014 Q1, New Flyer's total backlog was 7,683 EUs (for a total value of approximately $3.69 billion) compared to 7,678 EUs (for a total value of approximately $3.66 billion) at the end of the 13-week period ended December 29, 2013 ("2013 Q4"). The firm portion of the total backlog at the end of 2014 Q1 is made up of 2,608 EUs which has increased 14.6% compared with 2,276 EUs at the end of 2013 Q4. Effective 2014 Q1, the New Flyer Backlog now includes MiDi®.

New Flyer's backlog includes orders and options for clean propulsion vehicles (consisting of electric-hybrid, electric-trolley, compressed natural gas, liquid natural gas and all-electric) representing approximately 70% of the total backlog.

Deliveries in 2014 Q1 were 554 EUs, which increased 13.1% from 490 EUs delivered in 2013 Q1, primarily due to the addition of NABI Bus deliveries. The number of EUs delivered in 2014 Q1 exceeded management's previous expectations by 19 EUs as a result of lower than

expected work in process (“WIP”) levels at March 30, 2014. The Company line entered 587 EUs (which includes MiDi®) in 2014 Q1, as previously projected.

New Flyer's 2014 Q1 LTM Book-to-Bill ratio (defined as new firm and option orders divided by deliveries) was 170%, compared to 211% just one year ago. This is the fifth consecutive quarter with a LTM Book-to-Bill ratio greater than 100%. A ratio above 100% implies that more orders were received than filled, indicating increasing demand for New Flyer products.

In February 2014, New Flyer entered into an agreement with ABC Companies, Inc. (“ABC”) to serve as the exclusive distributor of New Flyer’s MiDi® and Xcelsior® models to private bus and shuttle operators in the United States. ABC will market, sell and provide after-sales services through its established sales and services locations and through select independent dealerships. ABC is a leading provider of transit products including new and pre-owned highway coach vehicles, mid-size shuttle transport vehicles and advanced design heavy-duty transit equipment.

In March 2014, the Company amended its agreement with A. Girardin Inc. ("Girardin") to include the MiDi®, in addition to the Xcelsior® heavy-duty transit bus. New Flyer and Girardin first entered into a distributors agreement in April 2011 to distribute the Xcelsior® heavy duty transit bus. Girardin will serve as the exclusive distributor of MiDi® and Xcelsior® transit bus models for all public and private customers in Quebec and private operators in Ontario and the Atlantic provinces. Under the terms of the agreement, Girardin will market, sell and provide after sales service for the MiDi® and Xcelsior® transit buses through its established service locations.

Aftermarket order activity during 2014 Q1

Gross parts orders received by New Flyer's aftermarket business during 2014 Q1 (inclusive of NABI Parts and the integrated Orion parts business) increased 131% compared to 2013 Q1. Parts shipments in 2014 Q1 also increased 123% over 2013 Q1.

Quarter-over-quarter (2014 Q1 vs. 2013 Q4) gross parts orders rose 3.4%, while parts shipments were up 7.5% (inclusive of NABI Parts and the integrated Orion parts business).

2014 First Quarter Financial Results

The Company generated consolidated revenue of $323.9 million for 2014 Q1, an increase of 32.1% compared to consolidated revenue for 2013 Q1 of $245.1 million. In order to gain a better understanding of origin of the revenue growth, it is important to compare revenue of the business units during the respective reporting periods. During 2014 Q1, 77.5% of the revenue was generated by the bus operations and 22.5% from the aftermarket operations, as compared to 2013 Q1 when 84.8% of the revenue was generated by the bus operations and 15.2% from the aftermarket operations. The aftermarket segment growth primarily resulted from the Chicago Transit Authority (“CTA”) midlife overhaul program, the Orion parts business subsequent to the March 1, 2013 acquisition date and the acquisition of NABI Parts business subsequent to the June 21, 2013 acquisition date.

Revenue from bus manufacturing operations for 2014 Q1 was $250.8 million, an increase of 20.7% from $207.8 million in 2013 Q1. The increase in 2014 Q1 revenue primarily resulted from a 13.1% increase in total bus deliveries of 554 EUs in 2014 Q1 compared to 2013 Q1 deliveries of 490 EUs and from an 6.8% increase in average selling price per EU in 2014 Q1 compared to 2013 Q1. The increased deliveries primarily were as a result of including NABI bus deliveries effective June 21, 2013. However, WIP at the end of 2014 Q1 increased by 33 EUs over the WIP at the end of 2013 Q4, which now includes five MiDi® buses. The increase in WIP was less than the previous guidance provided with New Flyer’s Fiscal 2013 year-end reporting. The average selling price per EU in 2014 Q1 was $452.8 thousand which increased compared to $424.1 thousand in 2013 Q1. The increase in average selling price is the result of changes in the product sales mix, which included more sales of hybrid buses and fewer articulated buses. The average selling price can be volatile when comparing two fiscal quarters as a result of sales mix.

Revenue from aftermarket operations in 2014 Q1 was $73.0 million, an increase of 95.7% compared to $37.3 million in 2013 Q1. The increase in aftermarket operations revenue is primarily a result of increased volumes including incremental revenue from the CTA midlife overhaul program, the Orion parts business and the NABI Parts business.

Consolidated Adjusted EBITDA for 2014 Q1 totaled $19.7 million increased 27.9% compared to $15.4 million in 2013 Q1.

2014 Q1 bus manufacturing operations Adjusted EBITDA of $7.8 million (3.1% of revenue) decreased 21.7% compared with 2013 Q1 bus manufacturing operations Adjusted EBITDA of $9.9 million (4.8% of revenue) primarily due to decreased profit margins when comparing the two periods. Profit margins can vary significantly between orders due to factors such as pricing, order size and product type. Adjusted EBITDA from bus manufacturing operations per EU can be volatile on a quarterly basis and therefore, management believes that a longer term view should be taken when comparing bus manufacturing operations margins. However, management had anticipated and previously provided guidance that on average, margins on orders planned for production in 2014 will be lower than the average margins achieved during Fiscal 2013.

2014 Q1 aftermarket operations Adjusted EBITDA of $11.9 million (16.3% of revenue) increased 117.6% compared to $5.5 million (14.7% of revenue) in 2013 Q1, primarily due to the additional Adjusted EBITDA generated by the CTA midlife overhaul program and the acquisition of NABI Parts and the Orion parts businesses. The aftermarket operations Adjusted EBITDA for 2014 Q1 was normalized for $0.4 million of non-recurring costs relating to business acquisition. The percentage of revenue was positively impacted by a mix of reduced freight costs and improved product costs due to synergies resulting from operating NABI Parts.

The Company reported net earnings of $5.5 million in 2014 Q1, an increase compared to net earnings of $3.5 million in 2013 Q1, primarily as a result of $3.9 million increase in earnings from operations offset by a $1.6 million increase in income taxes. The Company's net earnings per share in 2014 Q1 were $0.10, a 25.0% increase from net earnings per share of $0.08 generated during 2013 Q1.

The Company generated Free Cash Flow of C$10.6 million during 2014 Q1 as compared to C$7.0 million in 2013 Q1 primarily as a result of improved earnings from operations. The Company declared dividends in 2014 Q1 of C$8.1 million as compared to C$7.0 million in 2013 Q1. The amount of dividends declared increased in 2014 Q1 as a result of issuing 11.1 million Shares in Fiscal 2013 to Marcopolo S.A. ("Marcopolo"). Management believes that sufficient Free Cash Flow will be generated to maintain the current dividend rate.

The March 30, 2014 liquidity position of $76.9 million is comprised of available cash of $14.2 million and $62.7 million available under the Company's revolving credit facility ("Revolver") as compared to a liquidity position of $69.2 million at December 29, 2013. As at March 30, 2014, there were $30.0 million of direct borrowings and $22.3 million of outstanding letters of credit related to the $115.0 million Revolver. During 2014 Q1, the Company increased its liquidity position primarily as a result of increased cash flows from the change in non-cash working capital, primarily made up of a decrease in accounts receivables from the elevated levels at December 29, 2013 and an increase in accounts payables due to timing of payments after year-end.

Management believes that the current liquidity 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 financial obligations as they come due, as well as provide funds for its financing requirements, capital expenditures, dividend payments and other operational needs for the foreseeable future.

Market and Business Outlook

As management has noted several times previously, the number of active heavy-duty transit bus procurements dropped noticeably during the period from 2009 to 2011. In order to fill production slots and to stabilize facilities and operations, the Company built a greater portion of buses from the awards in the backlog than from new contracts awarded, which reduced the total backlog. In order to replenish the decreasing backlog in an environment of fewer procurements, prices offered by all bus builders for new contracts declined dramatically. As a result, management expects that on average, bus margins on orders planned for production in Fiscal 2014 will be lower than the average margins achieved during Fiscal 2013.

The depreciation of the Canadian dollar against the U.S. dollar has reduced the value of the total bus order backlog, which is reported in U.S. dollars. New Flyer enters into fixed price contracts with customers in both Canadian and U.S. dollars. As a result, Canadian dollar contracts priced in a period of a stronger Canadian dollar relative to the U.S. dollar decreased in value as a result of the depreciation of the Canadian dollar during 2014 Q1. The Company has adjusted the Canadian exchange rate for new bids to reflect the current foreign exchange environment. Canadian contracts included in the backlog that were priced in prior periods, however, have depreciated in value. As at the end of 2014 Q1, 9.1% of the firm order backlog and 5.6% of the option backlog have been priced in Canadian dollars.

Despite the ongoing pressure on margins, management believes pricing in certain types of bus competitions has begun to normalize. In addition, management continues to pursue cost and overhead savings in daily operations through its Operational Excellence

initiatives. Management expects the total backlog, combined with the recent order intake, will enable the Company to operate during Fiscal 2014 at an average line entry rate of approximately 49 EUs per week (at both New Flyer and NABI Bus production facilities). The average line entry rate reflects the addition of MiDi®.

SELECTED QUARTERLY AND ANNUAL 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.

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

Fiscal Period	Quarter	Revenue*	Earnings from Operations[1]	Net earnings	EBITDA [1]	Adjusted EBITDA [1]	Earnings per share
2014	Q1	323,865	10,384	5,484	18,102	19,666	0.10
	Total	**$ 323,865**	**$ 10,384**	**$ 5,484**	**$ 18,102**	**$ 19,666**	**$ 0.10**
2013	Q4	$ 381,204	$ 23,977	$ 13,732	$ 31,281	$ 36,830	$ 0.25
	Q3	306,509	13,842	7,832	21,710	24,416	0.14
	Q2	266,576	6,794	1,684	13,331	18,063	0.03
	Q1	245,135	6,496	3,513	12,788	15,376	0.08
	Total	**$ 1,199,424**	**$ 51,109**	**$ 26,761**	**$ 79,110**	**$ 94,685**	**$ 0.52**
2012	Q4	$ 208,141	$ 7,725	$ 3,929	$ 14,061	$ 14,451	$ 0.09
	Q3	206,384	7,820	1,523	13,889	14,072	0.03
	Q2	224,762	10,686	3,398	11,055	16,366	0.08
	Q1	225,963	7,260	440	13,282	15,936	0.01
	Total	**$ 865,250**	**$ 33,491**	**$ 9,290**	**$ 52,287**	**$ 60,825**	**$ 0.21**

							Inventory comprised of:	
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]	Work in process (equivalent units)[2]	Finished goods (equivalent units)[2] & [3]
2014	Q1	273	—	587	554	306	286	20
	Total	**273**	**—**	**587**	**554**	**306**	**286**	**20**
2013	Q4	320	—	588	635	273	241	32
	Q3	305	—	592	577	320	294	26
	Q2	203	116	475	489	305	301	4
	Q1	225	—	468	490	203	199	4
	Total	**225**	**116**	**2,123**	**2,191**	**273**	**241**	**32**
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**

(*)Revenue has been restated for a correction of an error relating to revenue recognition of extended warranties as follows:

$U.S. in thousands	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4
Decrease in revenue	1,681	2,218	2,037	1,729	2,243	2,093	2,447	2,753

The correction also equally decreased cost of sales and therefore did not have an impact on earnings from operation, net earnings, assets, liabilities or ending deficit of the Company. For details, see Note 2.5 of the Financial Statements.

COMPARISON OF FIRST QUARTER AND TRAILING TWELVE MONTHS RESULTS
(Unaudited, U.S. dollars in thousands, except for deliveries in equivalent units)

		13-Weeks Ended March 30, 2014	13-Weeks Ended March 31, 2013 (*restated)		**52-weeks Ended March 30, 2014**		52-weeks Ended March 31, 2013 (*restated)
Statement of Earnings Data							
Revenue							
Canada	$	33,829	38,370	$	124,404	$	127,882
U.S.		217,060	169,425		903,115		631,561
Bus manufacturing operations		250,889	207,795		1,027,519		759,443
Canada		15,223	12,245		61,545		39,739
U.S.		57,753	25,095		189,090		85,240
Aftermarket operations		72,976	37,340		250,635		124,979
Total revenue	$	323,865	245,135	$	1,278,154	$	884,422
Earnings from operations(1)	$	10,384	6,496	$	54,997	$	32,727
Earnings before finance costs and income taxes		10,004	6,271		52,696		26,528
Net earnings		5,484	3,513		28,732		12,363
EBITDA(1)		18,102	12,788		84,424		51,793
Adjusted EBITDA							
Bus manufacturing operations including realized foreign exchange losses/gains		7,751	9,901		61,499		40,958
Aftermarket operations		11,915	5,475		37,476		19,307
Total Adjusted EBITDA(1)	$	19,666	15,376	$	98,975	$	60,265
Other Data (unaudited)							
Canada		84	92		309		306
U.S.		470	398		1,946		1,398
Total deliveries (equivalent units)(2)		554	490		2,255		1,704
Total capital expenditures	$	3,590	1,013	$	19,084	$	10,209
New options awarded	$	69,207	719,810	$	1,115,266	$	1,030,117
New firm orders awarded	$	180,827	229,000		888,721		609,870
Exercised options		276,528	99,150		451,779		463,341
Total firm orders	$	457,355	328,150	$	1,340,500	$	1,073,211

(*) Revenue for the 13-weeks and 52-weeks ended March 31, 2013 has been restated for a correction of an error relating to revenue recognition of extended warranties. The correction also equally decreased cost of sales and therefore did not have an impact on earnings from operation, net earnings, assets, liabilities or ending deficit of the Company. For details, see footnote on page 11 of this MD&A and Note 2.5 of the Financial Statements.

(Unaudited, U.S. dollars in thousands)	**March 30, 2014**		December 29, 2013		December 30, 2012	
Selected Statement of Financial Position Data						
Total assets	$ 1,129,436		$ 1,135,852		$ 897,224	
Long-term financial liabilities	338,245		346,233		322,844	
Other Data		Equivalent Units[(2)]		Equivalent Units[(2)]		Equivalent Units[(2)]
Firm orders – USA	$ 1,192,759	2,292	$ 1,031,743	2,088	$ 676,266	1,525
Firm orders – Canada	119,432	316	71,220	188	64,578	147
Total firm orders	1,312,191	2,608	1,102,963	2,276	740,844	1,672
Options – USA	2,243,234	4,755	2,442,771	5,136	1,787,685	4,320
Options – Canada	134,037	320	111,444	266	145,090	333
Total options	2,377,271	5,075	2,554,215	5,402	1,932,775	4,653
Total backlog	$ 3,689,462	7,683	$ 3,657,178	7,678	$ 2,673,619	6,325

Equivalent Units in Backlog	**13 Weeks Ended March 30, 2014**		52 Weeks Ended December 29, 2013		52 Weeks Ended December 30, 2012	
	Firm orders	Options	Firm orders	Options	Firm orders	Options
Beginning of period	2,276	5,402	1,672[(4)]	4,653[(5)]	1,476[(4)]	5,621[(5)]
New orders	380	179	1,923	3,356	882	738
NABI acquired backlog	—	—	551	608	—	—
Options exercised	506	(506)	601	(601)	970	(970)
Shipments	(554)	—	(2,191)	—	(1,656)	—
Removal of deferred order[(4) (5)]	—	—	(280)	(1,520)	—	—
Cancelled/expired	—	—	—	(1,094)	—	(736)
End of period	2,608	5,075	2,276	5,402	1,672[(4)]	4,653 [(5)]

The maximum term for a contract permitted by the Federal Transit Administration (“FTA”) is five years. Remaining options included in the total backlog will expire, if not exercised, as follows:

2014 Q2	593
2014 Q3	254
2014 Q4	465
2014	1,312
2015	1,015
2016	351
2017	570
2018	1,827
Total options	5,075

(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.

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

(4) Included in the Company’s total firm order backlog at the relevant time were 280 EUs under a major U.S. customer award. Based on discussions with this customer, it was uncertain whether any of these 280 EUs would enter the Company’s production schedule. Management removed these EUs from the backlog at December 29, 2013.

(5) Included in the Company’s total option backlog at the relevant time were 1,520 option EUs under a major U.S. customer award. Based on discussions with this customer, it was uncertain whether any of these 1,520 option EUs would be exercised prior to their expected expiry. Management removed these EUs from the backlog at December 29, 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 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, U.S. dollars in thousands)	**13-Weeks Ended March 30, 2014**	13-Weeks Ended March 31, 2013	**52-weeks Ended March 30, 2014**	52-weeks Ended March 31, 2013
Net earnings	$ 5,484	$ 3,513	$ 28,732	$ 12,363
Addback[1]				
Income taxes (recovered)	1,214	(371)	9,441	(443)
Interest expense	3,306	3,129	14,523	14,608
Amortization	7,718	6,292	29,427	24,596
Unrealized foreign exchange loss on non-current monetary items and forward foreign exchange contracts	380	225	2,301	669
EBITDA[2]	18,102	12,788	84,424	51,793
Costs associated with assessing strategic and corporate initiatives[5]	—	1,130	4,859	1,857
Loss on exercise of redemption right[4]	—	—	—	5,530
Non-recurring costs relating to business acquisition[7]	371	185	1,338	185
Realized investment tax credits[6]	988	1,273	7,850	900
Stock-based compensation	205	—	504	—
Adjusted EBITDA[2]	$ 19,666	$ 15,376	$ 98,975	$ 60,265

RECONCILIATION OF CASH FLOW TO EBITDA AND ADJUSTED EBITDA

(Unaudited, U.S. dollars in thousands)	**13-Weeks Ended March 30, 2014**	13-Weeks Ended March 31, 2013	**52-weeks Ended March 30, 2014**	52-weeks Ended March 31, 2013
Net cash (used) generated by operating activities	$ 17,451	$ (24,593)	$ 72,023	$ (32,031)
Addback[1]				
Changes in non-cash working capital items	(7,883)	23,457	(8,352)	53,553
Defined benefit funding	2,141	2,040	8,815	7,705
Defined benefit expense	(661)	(657)	(2,782)	(1,972)
Interest paid	3,827	2,925	11,851	15,828
Loss on exercise of redemption right	—	—	—	(5,530)
Realized investment tax credits	(988)	(1,273)	(9,318)	(900)
Stock-based compensation	(205)	—	(504)	—
Foreign exchange gain on cash held in foreign currency	28	621	(401)	2,562
Income taxes paid [3]	4,392	10,268	13,092	12,578
EBITDA[2]	18,102	12,788	84,424	51,793
Costs associated with assessing strategic and corporate initiatives[5]	—	1,130	4,859	1,857
Loss on exercise of redemption right[4]	—	—	—	5,530
Non-recurring transitional costs relating to business acquisition[7]	371	185	1,338	185
Realized investment tax credits[6]	988	1,273	7,850	900
Stock-based compensation	205	—	504	—
Adjusted EBITDA[2]	$ 19,666	$ 15,376	$ 98,975	$ 60,265

(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 Earnings from Operations, 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) 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. Income taxes paid in 2013 Q1 included a $8.0 million payment of NFI’s 2012 Canadian income tax liability and installment payments as compared to no required installment payments in 2014 Q1.

(4) Normalized to exclude the non-recurring loss on exercise of the redemption right option on the 14% subordinated notes.

(5) Normalized to exclude non-recurring expenses related to the costs of assessing strategic and corporate initiatives, including amounts related to acquiring Orion parts business and NABI.

(6) The Company recognizes ITCs in Adjusted EBITDA only during the period in which they are applied against income taxes payable. During the 52-weeks ended March 30, 2014 the Company recognized $9,318 of ITCs, however a related contractual liability exists to a third party of $1,468.

(7) 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 evaluate the Company's operating performance and liquidity and to assess New Flyer's ability to pay dividends to common shareholders, service debt, and meet other payment obligations.

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 uses the Revolver 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, U.S. dollars in thousands)	**13-Weeks Ended March 30, 2014**	13-Weeks Ended March 31, 2013	**52-weeks Ended March 30, 2014**	52-weeks Ended March 31, 2013
Net cash (used) generated by operating activities	$ 17,451	$ (24,593)	$ 72,023	$ (32,031)
Changes in non-cash working capital items[3]	(7,883)	23,457	(8,352)	53,553
Interest paid[3]	3,827	2,925	11,851	15,828
Interest expense[3]	(3,080)	(2,929)	(11,757)	(13,877)
Income taxes paid[3]	4,392	10,268	13,092	12,578
Current income tax expense[3]	(3,407)	(4,488)	(22,768)	(16,335)
Principal portion of finance lease payments	(358)	(708)	(1,653)	(2,481)
Cash capital expenditures [8]	(3,290)	(312)	(16,814)	(1,588)
Costs associated with assessing strategic and corporate initiatives[7]	—	1,130	4,859	1,857
Non-recurring transitional costs relating to business acquisition[9]	371	185	1,338	185
Defined benefit funding[4]	2,141	2,040	8,815	7,705
Defined benefit expense[4]	(661)	(657)	(2,782)	(1,972)
Realized investment tax credits[10]	—	—	(1,468)	—
Foreign exchange gain (loss) on cash held in foreign currency[5]	28	621	(401)	2,562
Free Cash Flow (US$)[1]	9,531	6,939	45,983	25,984
U.S. exchange rate[2]	1.1089	1.0147	1.0572	1.0033
Free Cash Flow[1] (C$)	**10,569**	**7,041**	**48,613**	**26,834**
Free Cash Flow per Share (C$)[6]	0.1905	0.1502	0.8989	0.5963
Declared dividends on Shares (C$)	**8,112**	**6,971**	**31,847**	**30,510**
Declared dividend per Share (C$)[6]	$ 0.1462	$ 0.1487	$ 0.5889	$ 0.6780

(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 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 are 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.

(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, management believes it should be included in the calculation of Free Cash Flow.

(6) 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 2014 Q1 was 55,466,959 and 54,078,812 for the 52-weeks ended March 30, 2014. The weighted average number of Shares outstanding for 2013 Q1 was 46,868,898 and 45,001,527 for the 52-weeks ended March 31, 2013.

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

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

(9) Normalized to exclude non-recurring expenses related to the transitional costs related to recently acquired Orion parts business and NABI.

(10) The Company recognizes ITCs in Adjusted EBITDA only during the period in which they are applied against income taxes payable. During the 52-weeks ended March 30, 2014 the Company recognized $9,318 of ITCs, however a related contractual liability exists to a third party of $1,468.

Dividend Policy

NFI'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.

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.

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 ("CAD") and the U.S. dollar ("USD"). 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.

The impact of the weakening Canadian dollar against the U.S. dollar is largely dependent on the Company's revenue mix by currency as operating costs denominated in Canadian dollars have been relatively stable. CAD denominated costs do not vary unless production is shifted between plants while the revenue exposure is based on the amount of CAD contracts that are recognized as revenue. Most of the material cost is already denominated in USD; however, labour cost as well as manufacturing overheads and selling, general and administrative costs have significant CAD denominated costs. During 2014 Q1, approximately 85% of revenue was USD denominated and approximately 15% was CAD denominated. As at March 30, 2014, the backlog consisted of firm CAD orders of 316 EUs ($119 million U.S. equivalent) representing approximately 9.1% of firm orders. CAD options at March 30, 2014 totaled 320 EUs ($134 million U.S. equivalent) representing approximately 5.6% of the option backlog. However, a portion of the lost revenue due to exchange is offset by the gain on CAD expenses. For new business, management factors the current exchange rate into pricing decisions to mitigate the impact on Canadian orders.

During 2014 Q1 the Company generated a net cash inflow of CAD dollars. As a matter of policy, New Flyer enters into foreign exchange forward contracts to protect the expected net CAD exposure from exchange fluctuation. Management's strategy is to mitigate foreign currency exposure based on net cash flow rather than Adjusted EBITDA. Based on production plans as of the date hereof, management expects the Company to generate a net CAD inflow during Fiscal 2014. The expectation is based on current production plans and may change based on the amount of Canadian contracts delivered during the last half of Fiscal 2014.

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 2014 Q1, the Company recorded realized foreign exchange loss of $0.8 million (2013 Q1: $0.3 million gain).

At March 30, 2014, the Company had $15.0 million of foreign exchange forward contracts to buy Canadian dollars that range in expiry dates from April 2014 to July 2014. The related liability of $0.4 million (2013: $0.7 million) is recorded on the interim condensed 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 is recorded in the consolidated statements of net earnings and total comprehensive income.

Fiscal and Interim Periods

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

	Period from December 30, 2013 to December 28, 2014 ("Fiscal 2014")			**Period from December 31, 2012 to December 29, 2013 ("Fiscal 2013")**		
	Period End Date	# of Calendar Weeks	# of Available Production Weeks	Period End Date	# of Calendar Weeks	# of Available Production Weeks
Quarter 1	March 30, 2014	13	12.5	March 31, 2013	13	12.4
Quarter 2	June 29, 2014	13	12.7	June 30, 2013	13	12.8
Quarter 3	September 28, 2014	13	12.3	September 29, 2013	13	12.4
Quarter 4	December 28, 2014	13	12.0	December 29, 2013	13	12.0
Fiscal year	December 28, 2014	52	49.5	December 29, 2013	52	49.6

An available production week equals five days of production, excluding any statutory holidays.

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)	**2014 Q1 (13-Weeks)**	2013 Q1 (13-Weeks) *restated
Bus Manufacturing Revenue	$ 250,889	$ 207,795
Aftermarket Revenue	72,976	37,340
Total Revenue	$ 323,865	$ 245,135
Earnings from Operations[(1)]	10,384	6,496
Earnings before finance costs and income taxes	10,004	6,271
Earnings before income taxes	6,698	3,142
Net earnings for the period	5,484	3,513

(*) Revenue for 2013 Q1 has been restated for a correction of an error relating to revenue recognition of extended warranties. The correction also equally decreased cost of sales and therefore did not have an impact on earnings from operation, net earnings, assets, liabilities or ending deficit of the Company. For details, see footnote on page 11 of this MD&A and Note 2.5 of the Financial Statements.

(1) "Earnings from Operations" is not a recognized earnings measure and does not have a standardized meaning 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 measure in evaluating performance of NFI.

Revenue

The Company generated consolidated revenue of $323.9 million for 2014 Q1, an increase of 32.1% compared to consolidated revenue for 2013 Q1 of $245.1 million. In order to gain a better understanding of origin of the revenue growth, it is important to compare revenue of the business units during the respective reporting periods. During 2014 Q1, 77.5% of the revenue was generated by the bus operations and 22.5% from the aftermarket operations, as compared to 2013 Q1 when 84.8% of the revenue was generated by the bus operations and 15.2% from the aftermarket operations. The aftermarket segment growth primarily resulted from the CTA midlife overhaul program, the Orion parts business subsequent to the March 1, 2013 acquisition date and the acquisition of NABI Parts business subsequent to the June 21, 2013 acquisition date.

Revenue from bus manufacturing operations for 2014 Q1 was $250.8 million, an increase of 20.7% from $207.8 million in 2013 Q1. The increase in 2014 Q1 revenue primarily resulted from a 13.1% increase in total bus deliveries of 554 EUs in 2014 Q1 compared to 2013 Q1 deliveries of 490 EUs and from an 6.8% increase in average selling price per EU in 2014 Q1 compared to 2013 Q1. The increased deliveries primarily were as a result of including NABI bus deliveries effective June 21, 2013. However, WIP at the end of 2014 Q1 increased by 33 EUs over the WIP at the end of 2013 Q4, which now includes five MiDi® buses. The increase in WIP was less than the previous guidance provided with New Flyer's Fiscal 2013 year-end reporting. The average selling price per EU in 2014 Q1 was $452.8 thousand which increased compared to $424.1 thousand in 2013 Q1. The increase in average selling price is the result of changes in the product sales mix, which included more sales of hybrid buses and fewer articulated buses. The average selling price can be volatile when comparing two fiscal quarters as a result of sales mix.

Revenue from aftermarket operations in 2014 Q1 was $73.0 million, an increase of 95.7% compared to $37.3 million in 2013 Q1. The increase in aftermarket operations revenue is primarily a result of increased volumes including incremental revenue from the CTA midlife overhaul program, the Orion parts business and the NABI Parts business.

Cost of sales

The consolidated cost of sales for 2014 Q1 of $293.9 million increased by 31.2% from 2013 Q1 consolidated cost of sales of $224.0 million. This increase is consistent with the related increase in revenue during 2014 Q1.

Costs of sales from bus manufacturing operations consist of direct contract costs and manufacturing overhead. The cost of sales from bus manufacturing operations for 2014 Q1 was $237.7 million (94.8% of revenue from bus manufacturing operations) compared to $195.6 million (94.1% of revenue from bus manufacturing operations) in 2013 Q1, an increase of 21.5%. This increase in cost of sales primarily relates to 13.1% more deliveries in 2014 Q1 with a higher mix of contracts with lower than average margins primarily a result of quarterly volatility in sales mix and the negative impact of lower bid margins.

The cost of sales from aftermarket operations of $56.1 million (76.9% of aftermarket operations revenue) in 2014 Q1 increased 97.5% compared to $28.4 million (76.1% of aftermarket operations revenue) in 2013 Q1, primarily as a result of the increase in sales volumes. Management believes that given the percentage of revenue is flat after considering the CTA midlife lower margins, the implication is that the aftermarket operations core business is improving.

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

The consolidated SG&A for 2014 Q1 of $18.8 million increased 26.0% compared with $14.9 million in 2013 Q1. The increase in 2014 Q1 SG&A is primarily a result of the addition of NABI and incremental costs to market and the start-up manufacturing costs of MiDi®.

Realized foreign exchange loss/gain

In 2014 Q1, the Company recognized a net realized loss of $0.8 million compared with a net realized gain of $0.3 million in 2013 Q1. During 2014 Q1, the Company experienced a greater amount of unfavourable settlements of foreign exchange contracts which resulted in an increase of realized foreign exchange losses as compared to 2013 Q1.

Earnings from operations

Consolidated earnings from operations for 2014 Q1 in the amount of $10.4 million (3.2% of revenue) increased 60.0% compared to earnings from operations in 2013 Q1 of $6.5 million (2.7% of revenue).

The loss from bus manufacturing operations (including amortization and depreciation) for 2014 Q1 was $0.5 million (-0.2% of bus manufacturing revenue), compared to earnings of $1.2 million for 2013 Q1 (0.6% of bus manufacturing revenue). These results are expected as management has previously stated that on average, margins on orders planned for production in 2014 will be lower than the average margins achieved during Fiscal 2013. When reviewing performance of the bus manufacturing operations it is important to consider that corporate overhead costs are allocated fully to the bus business unit.

The earnings from aftermarket operations of $10.9 million (14.9% of aftermarket revenue) in 2014 Q1 increased 106.0% compared to 2013 Q1 earnings of $5.3 million (14.2% of aftermarket revenue). 2014 Q1 earnings from aftermarket operations increased primarily due to the contribution from the Orion parts operations, NABI Parts and by the CTA midlife overhaul program. The percentage of revenue was positively impacted by a mix of reduced freight costs and improved product costs due to synergies resulting from operating NABI Parts and increased pricing in the market place partially offset by lower margins on CTA midlife overhaul program.

Unrealized foreign exchange loss

The Company has recognized a net unrealized foreign exchange loss consisting of the following:

(Unaudited, U.S. dollars in thousands)	**2014 Q1**	2013 Q1
Unrealized gain on forward foreign exchanges contracts	$ (368)	$ (16)
Unrealized loss on other long-term monetary assets/liabilities	748	241
	$ 380	$ 225

Earnings before interest and income taxes ("EBIT")

In 2014 Q1, the Company recorded EBIT of $10.0 million compared to EBIT of $6.3 million in 2013 Q1. The EBIT recorded during 2014 Q1 has increased primarily as a result of the businesses acquired subsequent to 2013 Q1. EBIT has been impacted by non-cash and non-recurring items as follows:

(Unaudited, U.S. dollars in thousands)	**2014 Q1**	2013 Q1
Non-cash and non-recurring charges:		
Costs associated with assessing strategic and corporate initiatives	$ 371	$ 1,130
Unrealized foreign exchange loss	380	225
Stock-based compensation	205	—
Non-recurring transitional costs relating to business acquisitions	—	185
Amortization	7,718	6,292
Total non-cash and non-recurring charges:	$ 8,674	$ 7,832

Absent these non-cash charges/recoveries, the 2014 Q1 EBIT would have been $18.7 million compared to $14.1 million in 2013 Q1.

Finance costs

The finance costs for 2014 Q1 were $3.3 million, an increase of 5.7% when compared to $3.1 million in 2013 Q1, primarily as a result of the $20 million increase in Term Credit Facility borrowed on June 21, 2013.

Earnings before income taxes ("EBT")

EBT for 2014 Q1 of $6.7 million improved compared to EBT of $3.1 million in 2013 Q1. The difference in the EBT between these periods results from the increased earnings from operations.

Income tax expense

The income tax expense for 2014 Q1 was $1.2 million, consisting of $3.4 million of current income tax expense and $2.2 million of deferred income tax expense recovered. In comparison, the income tax expense recovered for 2013 Q1 was $0.4 million, which consisted of $4.5 million of current income tax expense and $4.9 million of deferred income tax expense recovered.

Net earnings

The Company reported net earnings of $5.5 million in 2014 Q1, an increase compared to net earnings of $3.5 million in 2013 Q1, primarily as a result of $3.9 million increase in earnings from operations offset by increased income taxes. The Company's net earnings per share in 2014 Q1 were $0.10, a 25.0% increase from net earnings per share of $0.08 generated during 2013 Q1.

Cash Flow

The cash flows of the Company are summarized as follows:

(Unaudited, U.S. dollars in thousands)	**2014 Q1**	2013 Q1
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	$ 17,787	$ 12,057
Interest paid	(3,827)	(2,925)
Income taxes paid	(4,392)	(10,268)
Net cash earnings (loss)	9,568	(1,136)
Changes in non-cash working capital items	7,883	(23,457)
Cash flow from (used in) operating activities	17,451	(24,593)
Cash flow (used in) from financing activities	(11,604)	51,551
Cash flow used in investing activities	$ (3,595)	$ (32,129)

Cash flows from operating activities

The 2014 Q1 net operating cash inflow of $17.5 million is the result of a decrease in non-cash working capital of $7.9 million and $9.6 million of net cash earnings compared to 2013 Q1 net operating cash outflow of $24.6 million which was the result of an increase in non-cash working capital of $23.5 million and $1.1 million of net cash losses. The cash inflow of $7.9 million from non-cash working capital changes during 2014 Q1 were primarily due to decreased accounts receivables and increased accounts payables. The non-cash working capital changes during 2013 Q1 were primarily as a result of increased accounts receivables due to timing of collections and deliveries during the period which more than offset the decrease in inventory at December 29, 2013.

Cash flow from financing activities

The Company's financing activities resulted in a net cash outflow of $11.6 million and a cash inflow $51.6 million for 2014 Q1 and 2013 Q1, respectively. The cash outflow during 2014 Q1 primarily relates to the $5.0 million repayment of the Revolver borrowings as a result of working capital management and $7.4 million of dividends payments. The cash inflow during 2013 Q1 primarily relates to $50.2 million of cash received from the proceeds of Shares issued to Marcopolo (net of share issuance costs) and $8.7 million of proceeds from new draws on the Revolver which funded working capital needs and growth capital expenditures offset by $6.7 million for dividends.

Cash flow from investing activities

2014 Q1 investing activities resulted in a net cash outflow of $3.6 million compared to $32.1 million in 2013 Q1. 2014 Q1 cash outflows were primarily as a result of property, plant and equipment ("PPE") expenditures shown below. In comparison, for 2013 Q1 the Company invested $26.5 million to acquire Orion aftermarket parts business and $5.1 million in Power Brake technology licenses for aftermarket parts. The composition of the PPE capital expenditures was as follows:

(Unaudited, U.S. dollars in thousands)	**2014 Q1**	2013 Q1
PPE expenditures	$ 3,590	$ 1,013
Less PPE expenditures funded as part of Orion parts business	—	(394)
Less PPE expenditures funded by capital leases	(67)	(92)
Acquisition of PPE reported on statement of cash flows	3,523	527
Less PPE expenditures funded by senior term loan for asset acquisitions *	(233)	(215)
Cash PPE expenditure	3,290	312

*****Term loan was drawn in fiscal 2012. The proceeds have been applied to PPE expenditures during 2014 Q1 and 2013 Q1.

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, 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, the 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.

The Company generated Free Cash Flow of C$10.6 million during 2014 Q1 as compared to C$7.0 million in 2013 Q1 primarily as a result of improved earnings from operations. The Company declared dividends in 2014 Q1 of C$8.1 million as compared to C$7.0 million in 2013 Q1. The amount of dividends declared increased in 2014 Q1 as a result of issuing 11.1 million Shares in Fiscal 2013 to Marcopolo. Management believes that sufficient Free Cash Flow will be generated to maintain the current dividend rate.

The March 30, 2014 liquidity position of $76.9 million is comprised of available cash of $14.2 million and $62.7 million available under the Revolver as compared to liquidity positions of $69.2 million at December 29, 2013. As at March 30, 2014, there were $30.0 million of direct borrowings and $22.3 million of outstanding letters of credit related to the $115.0 million Revolver. During 2014 Q1, the Company increased its liquidity position primarily as a result of increased cash flows from the change in non-cash working capital, primarily made up of a decrease in accounts receivables from the elevated levels at December 29, 2013 and an increase in accounts payables due to timing of payments after year-end.

Management believes that the current liquidity 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 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. Under the Credit Facility the Debentures are treated as equity for purposes of calculating the total leverage ratio. At March 30, 2014, the Company was in compliance with the ratios.

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

	March 30, 2014	December 29, 2013
Total Leverage Ratio (must be less than 3.25)	1.67	1.67
Interest Coverage Ratio (must be greater than 3.00)	8.72	9.21

Interest rate risk

In connection with the Credit Facility, the Company has an interest rate swap designed to hedge floating rate exposure for the term of the Credit Facility on $142 million of drawn term loan. The current interest rate swap fixes the interest rate at 1.46% plus the applicable interest margin until April 2017. The fair value of the interest rate swap liability of $2.2 million at March 30, 2014 (December 29, 2013: $2.9 million) was recorded on the interim condensed 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 - up to 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 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:

	March 30, 2014	December 29, 2013
Current, including holdbacks	$ 187,147	$ 213,101
Past due amounts but not impaired		
1 – 60 days	13,581	16,370
Greater than 60 days	790	1,270
Less: allowance for doubtful accounts	(473)	(426)
Total accounts receivables, net	$ 201,045	$ 230,315

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

Commitments and Contractual Obligations

Commitments

The following table outlines the Company's maturity analysis of the undiscounted cash flows of certain non-current financial liabilities and leases as at March 30, 2014:

U.S. dollars in thousands	**Total**	**2014**	**2015**	**2016**	**2017**	**2018**	**Post 2018**
Senior term loan	$ 157,000	$ 3,750	$ 5,000	$ 5,000	$ 143,250	$ —	$ —
Convertible debentures	79,217	4,062	4,062	4,062	67,031	—	—
Other long-term liabilities	11,378	3,000	3,000	2,250	1,000	1,000	1,128
Finance leases	2,912	1,037	785	647	350	91	2
Accrued pension benefit	3,000	3,000	—	—	—	—	—
Operating leases	48,033	4,466	5,525	5,261	5,322	5,252	22,207
	$ 301,540	$ 19,315	$ 18,372	$ 17,220	$ 216,953	$ 6,343	$ 23,337

As at March 30, 2014, outstanding surety bonds guaranteed by the Company amounted to $149.5 million, representing an increase compared to $147.2 million at December 29, 2013. The estimated maturity dates of the surety bonds outstanding at March 30, 2014 range from April 2014 to October 2016.

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

Under the Credit Facility, the Company has established a letter of credit sub-facility of $55.0 million. As at March 30, 2014, letters of credit amounting to $22.3 million (December 29, 2013: $22.7 million) remained outstanding under the letter of credit facility as security for the contractual obligations of the Company.

The Company does not have any off-balance sheet arrangement or any material capital asset commitments at March 30, 2014.

Stock Option Plan

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 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. The Options become vested as to one-quarter on the first grant date anniversary and an additional one-quarter on the second, third and fourth anniversary of such 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.

Option series	**Number**	**Vested**	**Exercised**	**Unvested**	**Expiry date**	**Exercise price**	**Fair Value at grant date**
Granted on March 26, 2013	490,356	120,090	2,500	367,766	March 26, 2021	C$10.20	C$1.55
Granted on December 30, 2013	612,050	—	—	612,050	December 30, 2021	C$10.57	C$1.44
	1,102,406	120,090	2,500	979,816		C$10.41	

The following reconciles the stock options outstanding:

	2014 Q1		**2013 Q1**	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance at beginning of period	490,356	C$10.20	—	—
Granted during the period	612,050	C$10.57	490,356	C$10.20
Exercised during the period	(2,500)	C$10.20	—	—
Balance at end of period	1,099,906	C$10.41	490,356	C$10.20

On March 28, 2014, 2,500 stock options were exercised at a price of C$10.20. The share price on the exercise date was C$11.21.

Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. Estimates are reviewed on a regular basis and, as adjustments become necessary, they are reported in the consolidated statements of net earnings and total comprehensive income for the periods in which they become known. The assets and liabilities which require management to make significant estimates and assumptions in determining carrying values include, but are not limited to, inventories, derivative financial instruments, property, plant and equipment, intangible assets, goodwill, provision for warranty costs, accrued benefit liability, accrued bonus liability, deferred compensation obligation and deferred income taxes.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment are addressed below.

Intangible assets and goodwill

The values associated with intangible assets and goodwill involve significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives. These significant estimates are subject to the Company's future results. These determinations will affect the amount of amortization expense on intangible assets recognized in future periods. The Company assesses impairment by comparing the recoverable amount of an intangible asset or goodwill with its carrying value. The determination of the recoverable amount involves significant estimation by management. Goodwill is allocated to the Company's three Cash Generating Units ("CGUs") for the purpose of impairment testing. The Company performs its annual test for impairment of goodwill and trade names in the fourth quarter of each year.

Employee benefits

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Determination of benefit expense requires assumptions such as the discount rate to measure obligations and return on assets, the projected age of employees upon retirement and the expected rate of future compensation changes. Actual results will differ from results which are estimated based on assumptions.

Income Taxes

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire. The Company's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of the Company's ability to utilize the underlying future tax deductions changes, the Company would be required to recognize more or fewer of the tax deductions as assets, which would decrease or increase the income tax expense in the period in which this is determined.

The Company is subject to taxation in multiple jurisdictions. Significant judgment is required in determining the worldwide provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions for uncertain tax positions are made using management's best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. Management reviews the adequacy of these provisions at each consolidated statements of financial position date. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Provision for Warranty Costs

The Company offers warranties for its sale of buses. Management estimates the related provision for future warranty claims based on historical warranty claim information as well as recent trends that might suggest that past cost information may differ from future claims. Factors that could impact the estimated claim information include the success of the Company's productivity and quality initiatives as well as parts and labour costs.

Critical judgments in applying accounting policies

The following critical judgments that were made by management have the most significant effect on the amounts recognized in the financial statements.

Revenue recognition

The Company assessed the criteria for the recognition of revenue related to arrangements that have multiple components as set out in IAS 18. Also, judgment is necessary to determine when components can be recognized separately and the allocation of the related consideration allocated to each component. Also, the Company assessed the criteria for the recognition of revenue in an agency relationship related to the sale of extended warranties that are purchased for the customer from the original equipment manufacturer as set out in IAS 18.

Functional currency

The Company assessed the criteria for the determination of functional currency as set out in IAS 21. An entity is required to place the greatest weight on the currency that influences the pricing of the transactions that it undertakes rather than focus on the currency in which the transactions are denominated in. The functional currency of the Company is the United States dollar as it is the currency of the primary economic environment in which the Company operates. In addition, it is the competitive forces of the United States marketplace that determine the sales prices of its goods and services. Predominantly, the costs for labour, material and overhead that

address the needs and support the Company's customers are incurred in United States dollars, and hence the pricing of goods and services to the customer is more greatly influenced from operations and the competitive forces in the United States.

Goodwill

Judgment is required in the selection of CGUs and the allocation of assets and liabilities to these CGUs, which is necessary to assess the impairment of long term assets, goodwill and intangible assets. Management has determined that for purposes of this evaluation the Company has three CGUs: bus manufacturing, aftermarket parts operations (excluding NABI Parts) and NABI Parts.

Standards recently adopted

International Financial Reporting Interpretations Committee ("IFRIC") 21 – Levies

IFRIC 21 provides guidance on when to recognize a liability to pay a levy imposed by the government that is accounted for in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets. The application of IFRIC 21 had no material impact on the Company's financial position or performance.

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:

The International Accounting Standards Board is currently developing IFRS 9 which will replace IAS 39, the current standard for accounting for financial instruments. The standard is being completed in three separate phases. The impact of this new standard will be assessed as the phases of the project are completed. The proposed effective date is January 1, 2018.

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 29, 2013 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 NABI, as it was 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 2014 Q1 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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

Disclosure Controls

Management is responsible for establishing and maintaining disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner and that information required to be disclosed is reported within time periods prescribed by applicable securities legislation. There are inherent limitations

to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. The Company has limited its design of disclosure controls and procedures to exclude controls, policies and procedures of NABI, as it was 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 29, 2013 were effective.

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. During the period between the June 21, 2013 acquisition date and December 29, 2013, NABI generated revenues of approximately $186.5 million and net earnings of approximately $5.2 million, which have been recorded in the consolidated statements of net earnings and total comprehensive income for the 52-week period ending December 29, 2013. Also, NABI generated revenues of approximately $84.1 million and net earnings of approximately $2.1 million during 2014 Q1. A summary of the assets acquired and liabilities assumed is as follows:

(Unaudited, U.S. dollars in thousands)		
Current assets	$	115,787
Non-current assets		60,718
Current liabilities		(86,403)
Non-current liabilities		(10,102)
Cash purchase price	$	80,000

Interim Condensed Consolidated Financial Statements of

NEW FLYER INDUSTRIES INC.

March 30, 2014

(Unaudited)

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NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET EARNINGS AND TOTAL COMPREHENSIVE INCOME
March 30, 2014
(unaudited, in thousands of U.S. dollars except per share figures)

		13-Weeks Ended March 30, 2014		13-Weeks Ended March 31, 2013 Restated (note 2.5)
Revenue (note 13)	$	323,865	$	245,135
Cost of sales (note 4)		293,851		223,979
Gross profit		30,014		21,156
Sales, general and administration costs and other operating expenses		18,828		14,948
Foreign exchange loss (gain) (note 12c)		802		(288)
Earnings from operations		10,384		6,496
Unrealized foreign exchange loss on non-current monetary items		380		225
Earnings before finance costs and income taxes		10,004		6,271
Finance costs				
Interest on long-term debt		2,257		2,117
Accretion in carrying value of long-term debt		540		568
Other interest and bank charges		823		812
Fair value adjustment on interest rate swap		(314)		(368)
		3,306		3,129
Earnings before income tax expense		6,698		3,142
Income tax expense (recovered) (note 5)				
Current income taxes		3,407		4,488
Deferred income taxes recovered		(2,193)		(4,859)
		1,214		(371)
Net earnings and total comprehensive income for the period	$	5,484	$	3,513
Net earnings per share (basic) (note 9)	$	0.10	$	0.08
Net earnings per share (diluted) (note 9)	$	0.10	$	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

March 30, 2014

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

	March 30, 2014	December 29, 2013
Assets		
Current		
Cash	$ 14,176	$ 11,896
Accounts receivable (note 3,12d)	201,045	230,315
Income taxes recoverable	1,612	—
Inventories (note 4)	207,666	183,338
Prepaid expenses and deposits	6,623	7,658
	431,122	433,207
Property, plant and equipment	65,524	64,832
Unused investment tax credits	12,671	13,659
Accrued benefit asset	1,118	—
Deferred tax assets (note 5)	54,884	55,290
Goodwill and intangible assets	564,117	568,864
	$ 1,129,436	$ 1,135,852
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 225,477	$ 212,938
Income taxes payable	—	504
Current portion of deferred revenue	55,404	57,614
Provision for warranty costs (note 15)	25,129	26,102
Current portion of long-term debt (note 6)	30,000	35,000
Derivative financial instruments	372	740
Current portion of deferred compensation obligation	112	258
Current portion of obligations under finance leases	1,123	1,283
	337,617	334,439
Accrued benefit liability	—	228
Obligations under finance leases	1,585	1,770
Deferred compensation obligation	2,345	1,663
Deferred revenue	9,284	17,382
Other long-term liabilities	10,520	9,303
Deferred tax liabilities (note 5)	113,216	114,816
Long-term debt (note 6)	140,365	140,241
Convertible debentures (note 7)	58,736	58,322
Derivative financial instruments (note 12c)	2,194	2,508
	675,862	680,672
Commitments and contingencies (note 14)		
Shareholders' equity		
Share capital (note 8)	589,234	589,208
Stock option reserve	500	299
Equity component of convertible debentures (note 7)	3,841	3,841
Accumulated other comprehensive loss	(5,001)	(5,001)
Deficit	(135,000)	(133,167)
	453,574	455,180
	$ 1,129,436	$ 1,135,852

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

Authorized for issue by the board of directors on May 7, 2014.

NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

March 30, 2014

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

	Share Capital	Equity Component of Convertible Debentures (note 10)	Stock Option Reserve	Accumulated Other Comprehensive Loss	Deficit	Total Shareholders' Equity
Balance, December 30, 2012	**$ 476,918**	**$ 3,841**	**$ —**	**$ (6,490)**	**$ (130,281)**	**$ 343,988**
Net earnings	—	—	—	—	3,513	3,513
Dividends declared on common shares	—	—	—	—	(6,870)	(6,870)
Shares issued	51,404	—	—	—	—	51,404
Share issuance costs (net of tax $326)	(857)	—	—	—	—	(857)
Balance, March 31, 2013	**$ 527,465**	**$ 3,841**	**$ —**	**$ (6,490)**	**$ (133,638)**	**$ 391,178**
Net earnings	—	—	—	—	23,248	23,248
Other comprehensive income	—	—	—	1,489	—	1,489
Dividends declared on common shares	—	—	—	—	(22,777)	(22,777)
Share based compensation	—	—	299	—	—	299
Shares issued	62,378	—	—	—	—	62,378
Share issuance costs (net of tax $228)	(635)	—	—	—	—	(635)
Balance, December 29, 2013	**$ 589,208**	**$ 3,841**	**$ 299**	**$ (5,001)**	**$ (133,167)**	**$ 455,180**
Net earnings	—	—	—	—	5,484	5,484
Dividends declared on common shares	—	—	—	—	(7,317)	(7,317)
Share based compensation	—	—	205	—	—	205
Shares issued (note 8)	26	—	(4)	—	—	22
Balance, March 30, 2014	**$ 589,234**	**$ 3,841**	**$ 500**	**$ (5,001)**	**$ (135,000)**	**$ 453,574**

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

NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

March 30, 2014

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

	13-Weeks Ended March 30, 2014	13-Weeks Ended March 31, 2013
Cash generated from (used in)		
Operating activities		
Net earnings for the period	$ 5,484	$ 3,513
Income tax expense (recovered)	1,214	(371)
Depreciation of plant and equipment	2,898	1,970
Amortization of intangible assets	4,820	4,322
Share based compensation	205	—
Finance costs recognized in profit or loss	3,306	3,129
Unrealized foreign exchange loss on non-current monetary items	380	225
Foreign exchange gain on cash held in foreign currency	(28)	(621)
Realized investment tax credits	988	1,273
Defined benefit expense	661	657
Defined benefit funding	(2,141)	(2,040)
Cash generated from operating activities before non-cash working capital items and interest and income taxes paid	17,787	12,057
Changes in non-cash working capital items (note 10)	7,883	(23,457)
Cash generated from (used in) operations before interest and income taxes paid	25,670	(11,400)
Interest paid	(3,827)	(2,925)
Income taxes paid	(4,392)	(10,268)
Net cash generated from (used in) operating activities	17,451	(24,593)
Financing activities		
Repayment of obligations under finance leases	(358)	(708)
Share issuance	23	51,404
Costs associated with share issuance	—	(1,183)
Proceeds from issuance (repayment) of long-term debt	(5,000)	8,713
Proceeds from other long-term liabilities	1,128	—
Dividends paid	(7,397)	(6,675)
Net cash (used in) generated from financing activities	(11,604)	51,551
Investing activities		
Acquisition of Orion aftermarket parts business	—	(20,608)
Acquisition of accounts receivables connected with purchase of Orion aftermarket parts business	—	(5,920)
Acquisition of intangible assets	(72)	(5,074)
Acquisition of property, plant and equipment	(3,523)	(527)
Net cash used in investing activities	(3,595)	(32,129)
Effect of foreign exchange rate on cash	28	621
Increase (decrease) in cash	2,280	(4,550)
Cash — beginning of period	11,896	11,182
Cash — end of period	$ 14,176	$ 6,632

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. NFI, with its recently acquired NABI Bus, LLC subsidiary, 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 May 7, 2014.

1.1 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 a wholly-owned Canadian subsidiary of Marcopolo S.A. and an additional $20.0 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"). The Company adjusted the preliminary purchase price allocation as set out below to account for information that was not readily available at the Acquisition Date. The adjustments recorded resulted in an increase to goodwill of $531 from the amount previously reported.

	Original	Adjustments	Revised
Cash purchase price	$ 80,000	$ —	$ 80,000
Less: NABI's cash acquired	7,997	(3,020)	4,977
Net cash used in acquisition	72,003	3,020	75,023
Net assets acquired			
Accounts receivable	54,493	(6,897)	47,596
Inventories	55,575	6,851	62,426
Prepaid expenses and deposits	788	—	788
Property, plant and equipment	15,558	—	15,558
Accounts payable and accrued liabilities	(62,734)	2,535	(60,199)
Deferred revenue	(10,794)	—	(10,794)
Provision for warranties	(15,410)	—	(15,410)
Other long-term liabilities	(10,102)	—	(10,102)
Net tangible assets acquired	27,374	2,489	29,863
Trade names	7,100	—	7,100
Patent and licenses	3,200	—	3,200
Customer relationships	26,000	—	26,000
Identifiable intangible assets acquired	36,300	—	36,300
Goodwill acquired	$ 8,329	$ 531	$ 8,860

The Company operates the NABI bus and NABI parts operations of NABI under the entities NABI Bus, LLC ("NABI Bus") and NABI Parts, LLC, ("NABI Parts") respectively. Both companies are part of the New Flyer group of companies.

The goodwill acquired is largely attributable to the synergies and economies of scale expected from the combined businesses of NFI and NABI. This goodwill is expected to be deductible for tax purposes. The estimated purchase price allocation remains subject to adjustments to the fair value of the provision for warranties that could arise as a result of new experience information.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Statements are the same as those applied by the Company in its consolidated financial statements as at and for the 52-week period ended December 29, 2013. These Statements should be read in conjunction with the Company's consolidated financial statements as at and for the 52-week period ended December 29, 2013.

2.1 Statement of Compliance

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

2.2 Basis of preparation

The Statements were prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS") which requires management to make judgments, 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 judgments 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 29, 2013.

2.3 Principles of consolidation

The Statements include the accounts of all of the Company's subsidiaries: New Flyer Holdings, Inc., Transit Holdings, Inc., New Flyer of America Inc., NFI ULC, 1176846 Alberta ULC, TCB Enterprises, LLC, NABI Bus, NABI Parts, Transit Acquisition, LLC, Transit Parts Holdings, Inc. and Transit Finco, Inc.

The Company and Alexander Dennis Limited have a contractual joint arrangement for the commercialization of MiDi®, a mid-sized bus, in the medium-duty transit markets in Canada and the United States. The Company is responsible for sales, marketing, manufacturing and aftermarket support with Alexander Dennis Limited performing engineering, test and prototype development activities. The Company recognizes in relation to its interest in a joint operation: its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly; its revenue from the sale of its share of the output arising from the joint operation; its share of the revenue from the sale of the output by the joint operation; and its expenses, including its share of any expenses incurred jointly.

2.4 Standards recently adopted

International Financial Reporting Interpretations Committee ("IFRIC") 21 – Levies

IFRIC 21 provides guidance on when to recognize a liability to pay a levy imposed by the government that is accounted for in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets. The application of IFRIC 21 had no material impact on the Company's financial position or performance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Comparative information

In preparing the 2013 comparative information, the Company has adjusted amounts reported previously in the consolidated financial statements as a result of the retroactive correction of an error relating to revenue recognition of extended warranties and OEM extended warranties. The following are the impacts on the Company's Statements for the 13-weeks ended March 31, 2013.

Net earnings and total comprehensive income impact		13-Weeks ended March 31, 2013
Decrease in revenue	$	2,243
Decrease in cost of sales		2,243
Net earnings and total comprehensive income impact	$	—

2.6 Standards issued but not yet adopted

IFRS 9 Financial Instruments:

The International Accounting Standards Board is currently developing IFRS 9 which will replace IAS 39, the current standard for accounting for financial instruments. The standard is being completed in three separate phases. The impact of this new standard will be assessed as the phases of the project are completed. The proposed effective date is January 1, 2018.

2.7 Fiscal periods

The Company's 2014 fiscal period is divided in quarters as follows:

	Period from December 30, 2013 to December 28, 2014 ("Fiscal 2014")		**Period from December 31, 2012 to December 29, 2013 ("Fiscal 2013")**	
	Period End Date	# of Weeks	Period End Date	# of Weeks
Quarter 1	March 30, 2014	13	March 31, 2013	13
Quarter 2	June 29, 2014	13	June 30, 2013	13
Quarter 3	September 28, 2014	13	September 29, 2013	13
Quarter 4	December 28, 2014	13	December 29, 2013	13
Fiscal year	December 28, 2014	52	December 29, 2013	52

3. ACCOUNTS RECEIVABLE

		March 30, 2014		December 29, 2013
Trade	$	192,123	$	221,314
Other		8,922		9,001
	$	201,045	$	230,315

4. INVENTORIES

		March 30, 2014		December 29, 2013
Raw materials	$	124,898	$	108,166
Work in process		75,897		64,670
Finished goods		6,871		10,502
	$	207,666	$	183,338

4. INVENTORIES (Continued)

	13-Weeks Ended March 30, 2014	13-Weeks Ended March 31, 2013
Cost of inventories recognized as expense and included in cost of sales	$ 283,552	$ 206,744
Write-down of inventory to net realizable value in cost of sales	523	230
Reversal of a previous write-down in inventory	204	—

5. DEFERRED TAXES AND INCOME TAX EXPENSE

	March 30, 2014	December 29, 2013
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	$ 42,033	$ 43,422
Deferred tax asset to be recovered within 12 months	16,584	15,476
	58,617	58,898
Deferred tax liabilities:		
Deferred tax liability to be reversed after more than 12 months	(111,203)	(112,531)
Deferred tax liability to be reversed within 12 months	(5,746)	(5,893)
	(116,949)	(118,424)
	$ (58,332)	$ (59,526)

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

	March 30, 2014	December 29, 2013
As presented on statements of financial position:		
Deferred tax assets	$ 54,884	$ 55,290
Deferred tax liabilities	(113,216)	(114,816)
	$ (58,332)	$ (59,526)

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

	13-Weeks Ended March 30, 2014	13-Weeks Ended March 31, 2013
Beginning of period	$ (59,526)	$ (72,912)
Exchange differences	(904)	(436)
Tax recorded through net earnings	2,193	4,859
Tax recorded through other comprehensive loss	—	—
Benefit of loss carry forward and share issuance costs recognized against income taxes payable	(95)	(176)
Tax recorded through equity	—	326
End of period	$ (58,332)	$ (68,339)

5. DEFERRED TAXES AND INCOME TAX EXPENSE (Continued)

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	Pension	Goodwill and Intangibles	Other	**Total**
December 29, 2013	$ (214)	$ —	$ (116,540)	$ (1,670)	$ (118,424)
Tax reversed (charged) through net earnings	41	(420)	1,491	363	1,475
March 30, 2014	$ (173)	$ (420)	$ (115,049)	$ (1,307)	$ (116,949)

Deferred tax assets	Provisions	Property Plant and Equipment	Pension	Deferred Financing Costs and Interest	Other	**Total**
December 29, 2013	$ 10,748	$ 10,688	$ 86	$ 19,705	$ 17,671	$ 58,898
Tax recovered (charged) through net earnings	1,194	520	(84)	(2,305)	1,393	718
Benefit of loss carry forward and share issuance costs recognized against income taxes payable	—	—	—	(95)	—	(95)
Exchange differences	(169)	(169)	(2)	(310)	(254)	(904)
March 30, 2014	$ 11,773	$ 11,039	$ —	$ 16,995	$ 18,810	$ 58,617

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

	13-Weeks Ended March 30, 2014	13-Weeks Ended March 31, 2013
Earnings before income tax expense	$ 6,698	$ 3,142
Tax calculated using a 35% U.S. tax rate	2,344	1,100
Tax effect of:		
Withholding and other taxes	339	121
Non-taxable income	(321)	(252)
Revision of tax estimates	—	320
Rate differential on income taxed at other than U.S. statutory rate	(421)	(350)
Foreign exchange impact	(594)	(1,081)
State taxes	(145)	(198)
Other	12	(31)
Income tax expense (recovered) for the period	$ 1,214	$ (371)

6. LONG-TERM DEBT

	Final Maturity	Face Value	Unamortized Transaction Costs	**Net Book Value March 30, 2014**	Net Book Value December 29, 2013
Term Credit Facility	April 2017	$ 142,000	$ 1,635	$ 140,365	$ 140,241
Revolving Credit Facility ("Revolver")	April 2017	30,000	—	30,000	35,000
		172,000	1,635	170,365	175,241
Less: current portion of long-term debt		30,000	—	30,000	35,000
		$ 142,000	$ 1,635	$ 140,365	$ 140,241

The Company's fourth amended and restated credit agreement has a total borrowing limit of $257.0 million. The borrowing limit of the Revolver is $115.0 million to support working capital fluctuations. The Revolver includes a $55.0 million letter of credit sub-facility, of which $22.3 million of outstanding letters of credit were drawn at March 30, 2014. The borrowing limit of the term facility (the "Term Credit Facility") is $142.0 million. The Credit Facility also includes 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. The obligations in respect of the Credit Facility are secured by: (a) a perfected lien on, and pledge of, (i) all inter-company notes owing to NFI, and (ii) all of the capital stock of, and inter-company notes owing to all of NFI's existing and direct and indirect subsidiaries, and (b) a perfected lien on, and security interest in, all of the existing and future tangible and intangible properties and assets of NFI and its direct and indirect subsidiaries, with certain exceptions.

7. 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 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.

7. CONVERTIBLE DEBENTURES (Continued)

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

	Debenture liability component	Equity component of Debenture	**Net Book Value March 30, 2014**	Net Book Value December 29, 2013
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	2,787	—	2,787	2,373
Deferred taxes	—	(1,421)	(1,421)	(1,421)
Net book value	$ 58,736	$ 3,841	$ 62,577	$ 62,163

8. SHARE CAPITAL

Authorized			
Unlimited	Shares		
Issued		**March 30, 2014**	December 29, 2013
55,469,404	Shares (December 29, 2013: 55,466,904)	$ 589,234	$ 589,208

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 29, 2013	55,467	$ 589,208
Stock options exercised	2	26
Balance - March 30, 2014	55,469	$ 589,234

The dividends declared in during the 13-weeks ended March 30, 2014 and the 13-weeks ended March 31, 2013 were $7,317 ($0.13 per Share) and $6,870 ($0.15 per Share) respectively. Dividends of $2,445 ($0.05 per Share) were proposed or declared after March 30, 2014 but prior to the Statements being authorized for issue. The Statements do not reflect this dividend payable.

9. EARNINGS PER SHARE

	13-Weeks Ended March 30, 2014	13-Weeks Ended March 31, 2013
Net earnings attributable to equity holders	$ 5,484	$ 3,513
Weighted average number of Shares in issue	55,466,959	46,868,898
Add: net incremental shares from assumed conversion of stock options	67,220	—
Weighted average number of Shares for calculation of diluted earnings per Share	55,534,179	46,868,898
Net earnings per Share (basic)	$ 0.0989	$ 0.0750
Net earnings per Share (diluted)	$ 0.0988	$ 0.0750

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.

Diluted earnings per Share is calculated using the same method as basic earnings per Share except that the average number of Shares outstanding includes the potential dilutive effect of outstanding stock options granted by the Company as determined by the treasury stock method. Dilution could occur through the exercise of stock options, the exercise of the Conversion Option or the Debentures being repaid with Shares at Maturity Date at 95% of market price. Currently, the 6.5 million Shares issuable pursuant to the conversion of the Debentures are considered anti-dilutive, therefore both the convertible debenture Shares and the related interest are disregarded in calculating diluted earnings per Share.

10. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	13-weeks Ended March 30, 2014	13-weeks Ended March 31, 2013
Accounts receivable	$ 29,270	$ (25,681)
Income taxes recoverable	(1,612)	(682)
Inventories	(24,328)	11,425
Prepaid expenses and deposits	1,035	(862)
Accounts payable and accrued liabilities	12,539	(985)
Income taxes payable	(504)	(6,756)
Deferred revenue	(10,308)	(6,607)
Provision for warranty costs	(973)	(374)
Other	2,764	7,065
	$ 7,883	$ (23,457)

11. 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 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. The Options become vested as to one-quarter on the first grant date anniversary and an additional one-quarter on the second, third and fourth anniversary of such date.

Option series	Number	Vested	Exercised	Unvested	Expiry date	Exercise price	Fair Value at grant date
Granted on March 26, 2013	490,356	120,090	2,500	367,766	March 26, 2021	C$10.20	C$1.55
Granted on December 30, 2013	612,050	—	—	612,050	December 30, 2021	C$10.57	C$1.44
	1,102,406	120,090	2,500	979,816		C$10.41	

The following reconciles the stock options outstanding:

	13-Weeks ended March 30, 2014		13-Weeks ended March 31, 2013	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance at beginning of period	490,356	C$10.20	—	—
Granted during the period	612,050	C$10.57	490,356	C$10.20
Exercised during the period	(2,500)	C$10.20	—	—
Balance at end of period	1,099,906	C$10.41	490,356	C$10.20

On March 28, 2014, 2,500 stock options were exercised at a price of C$10.20. The share price on the exercise date was C$11.21.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Financial Instruments

The Company has made the following classifications:

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

(b) Fair value measurement of financial instruments

The Company categorizes its fair value measurements of financial instruments recorded at fair value according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

Level 1 – fair value measurements that reflect unadjusted, quoted prices in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date.

Level 2 – fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable that are not prices (such as interest rates and credit risks) and inputs that are derived from or corroborated by observable market data.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Level 3 – fair value measurements using significant non-market observable inputs. These include valuations for assets and liabilities that are derived using data, some or all of which is not market observable data, including assumptions about risk.

The following table presents the carrying amounts and fair values of financial liabilities, including their levels in the fair value hierarchy. The table distinguishes between those financial instruments recorded at fair value and those recorded at amortized cost. The table also excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	March 30, 2014		
	Fair value level	Carrying amount	Fair value
Financial liabilities recorded at fair value			
Derivative financial instrument liabilities			
Foreign exchange forward contracts	Level 2	$ 372	$ 372
Interest rate swap	Level 2	2,194	2,194
Financial liabilities recorded at amortized cost			
Debentures (including equity conversion option)	Level 2	$ 62,577	$ 71,350

(c) 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 net earnings and total comprehensive income consistent with the underlying nature and purpose of the derivative instruments.

In connection with the Credit Facility, the Company has an interest rate swap designed to hedge floating rate exposure for the term of the Credit Facility on $142,000 of drawn term loan. The interest rate swap fixes the interest rate at 1.46% plus the applicable interest margin until April 2017. The fair value of the interest rate swap liability at March 30, 2014 is $2,194 (December 29, 2013: $2,508) and the change in fair value has been recorded as finance costs for the reported period. The related liability has been recorded on the consolidated statements of financial position as a derivative financial instruments liability.

(d) Liquidity Management

The Company’s approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At March 30, 2014, the Company had a cash balance of $14,176 (December 29, 2013: $11,896) and the $115,000 Revolver. As at March 30, 2014, there was $30,000 of direct borrowings (December 29, 2013: $35,000) and $22,285 of outstanding letters of credit (December 29, 2013: $22,681) under the Revolver.

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

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(e) 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 as follows:

	March 30, 2014	December 29, 2013
Current, including holdbacks	$ 187,147	$ 213,101
Past due amounts but not impaired		
1 – 60 days	13,581	16,370
Greater than 60 days	790	1,270
Less: Allowance for doubtful accounts	(473)	(426)
Total accounts receivables, net	$ 201,045	$ 230,315

As at March 30, 2014, there was no amount that would otherwise be past due or impaired whose terms have been renegotiated.

There are certain financial covenants under the Credit Facility that must be maintained. These financial covenants include an interest coverage ratio and total leverage ratio. As at March 30, 2014, the Company was in compliance with the financial covenants in the Credit Facility. The results of the financial covenants tests as of such date are as follows:

	March 30, 2014	December 29, 2013
Total Leverage Ratio (must be less than 3.25)	1.67	1.67
Interest Coverage Ratio (must be greater than 3.00)	8.72	9.21

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.

13. 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 transit buses for public transportation. The Aftermarket Operations segment derives its revenue from the provision of service parts and support related to 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 unrealized foreign exchange gains or losses and finance costs. Corporate overhead costs are allocated fully to the Bus Operations segment.

13. SEGMENT INFORMATION (Continued)

The Bus Operations segment has recorded vendor rebates of $740 (2013 Q1: $784), which have been recognized into earnings during 2014 Q1, but for which the full requirements for entitlement to these rebates have not yet been met.

The unallocated total assets of the Company primarily include cash, intangible assets, derivative financial instruments and deferred income tax assets. Corporate assets that are shared by both operating segments are allocated fully to the Bus Operations segment.

Segment information about profits and assets is as follows:

	13-Weeks Ended March 30, 2014			
	Bus Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 250,889	$ 72,976	$ —	$ 323,865
Operating costs and expenses	251,404	62,077	—	313,481
Earnings (loss) before income tax expense	(515)	10,899	(3,686)	6,698
Total assets	549,093	205,015	375,328	1,129,436
Addition of intangible assets	23	49	—	72
Addition of capital expenditures	3,435	88	—	3,523
Goodwill	149,400	62,705	—	212,105

	13-Weeks Ended March 31, 2013			
	Bus Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 207,795	$ 37,340	$ —	$ 245,135
Operating costs and expenses	199,455	32,050	—	231,505
Earnings (loss) before income tax expense	8,340	5,290	(10,488)	3,142
Total assets	426,521	117,020	391,284	934,825
Addition of intangibles assets	27	13,153	—	13,180
Addition of capital expenditures	522	399	—	921
Goodwill	148,483	54,762	—	203,245

14. COMMITMENTS AND CONTINGENCIES

(a) Through the normal course of operations, the Company has indemnified the surety companies providing surety bonds required under various contracts with customers. In the event that the Company fails to perform under a contract and the surety companies incur a cost on a surety bond, the Company is obligated to repay the costs incurred in relation to the claim up to the value of the bond. The Company's guarantee under each bond issued by the surety companies expires on completion of obligations under the customer contract to which the bond relates. The estimated maturity dates of the surety bonds outstanding at March 30, 2014 range from April 2014 to October 2016.

At March 30, 2014, outstanding surety bonds guaranteed by the Company totaled $149,451 (December 29, 2013: $147,202). 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 March 30, 2014, letters of credit totaling $22,285 (December 29, 2013: $22,681) remain outstanding under the letter of credit facility.

As at March 30, 2014, 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.

15. PROVISION FOR WARRANTY COSTS

The Company generally provides its customers with a one-year base warranty on the entire bus and a 12-year corrosion warranty on the bus structure. The Company also provides certain 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. The movement in the provision for warranty costs during the period is as follows:

		Total
December 29, 2013	$	26,102
Additions		3,836
Amounts used		(4,666)
Unwinding of discount and effect of changes in the discount rate		(179)
Exchange differences		36
March 30, 2014	$	25,129