March 19, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS AND 52-WEEKS ENDED DECEMBER 29, 2013

Information in this Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of New Flyer Industries Inc. ("NFI") is supplemental to, and should be read in conjunction with, NFI's consolidated financial statements (including notes) (the "Financial Statements") for the 52-week period ended December 29, 2013 ("Fiscal 2013"). This MD&A contains forward-looking statements, which are subject to a variety of factors that could cause actual results to differ materially from those contemplated by the forward-looking statements. See "Forward-looking Statements". Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the factors described in the public filings of NFI available on SEDAR at www.sedar.com. The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and, except where otherwise indicated, are presented in U.S. dollars, representing the functional currency of NFI. Unless otherwise indicated, the financial information contained in this MD&A has been prepared in accordance with IFRS and references to "$" or "dollars" mean U.S. dollars.

MEANING OF CERTAIN REFERENCES

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

The common shares of NFI ("Shares") are traded on the Toronto Stock Exchange ("TSX") under the symbol "NFI" and NFI's 6.25% convertible unsecured subordinated debentures ("Debentures") are traded on the TSX under the symbol "NFI.DB.U". As at December 29, 2013, 55,466,904 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.

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

On February 15, 2014, the U.S. President signed legislation that increased the U.S. debt limit through March 2015. Without the increase in the statutory debt limit, the U.S. government would have had to shut down some programs and possibly cause delays in Federal Transit Administration (the "FTA") activity, including processing bus procurement grants and making payments to grantees.

On March 4, 2014, the U.S. budget proposal for 2015 fiscal year was released. The centerpiece of the transportation budget is a four-year, $302 billion surface transportation authorization proposal that provides $72.3 billion for public transportation over that period and $17.6 billion in 2015 fiscal year, compared with $10.8 billion enacted in 2014 fiscal year. The $17.6 billion figure includes almost $14.0 billion for transit formula grants, compared with $8.6 billion last year, and $2.5 billion for capital investment grants, up from $1.9 billion in the previous year's enacted budget. American Public Transportation Association's ("APTA") released a statement in support of the proposed 2015 budget "for increasing investment in transportation and for recognizing the need to address the imminent shortfall in the Highway Trust Fund and the Mass Transit Account before the current transportation legislation (MAP-21) expires on Sept. 30, 2014.

Management remains encouraged by the general improvement of the economic health of the U.S. states with preliminary data from the Rockefeller Institute (Preliminary Report on December 18, 2013) indicating state tax collections increasing in the third quarter of 2013 for the 15th consecutive quarter, with a 6.1% increase over the prior year.

Recent Ridership Trends

The latest data from the 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 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.

In 2013 Americans took 10.6 billion trips on public transportation, which is the highest annual public transit ridership number in 57 years, according to a report released March 10, 2014 by APTA. Since 1995 public transit ridership is up 37.2 percent, outpacing population growth, which is up 20.3 percent, and vehicle miles traveled, which is up 22.7 percent.

Demand for Heavy-Duty Transit Buses

According to APTA's Policy Development and Research report titled "Trends in Public Transportation and Vehicle Fleet" released in November 2013, the U.S. transit bus fleet is starting to renew. The financial situation at many transit agencies has improved and funds from the American Recovery and Reinvestment Act helped transit agencies update their bus fleets. The bus fleet improved from an average age of 8 years in 2011 to 7.8 years in 2013 but still a long way from the natural 6 year average given the 12 year funding cycle. The Canadian Urban Transit Association has reported the average age of Canadian heavy-duty buses has reduced from 10 to 6.9 years in the same period, which should result in a relatively flat replacement cycle going forward. The Company's research which has identified approximately 5,700 New Flyer buses that are older than 12 years and still in active service, which should support demand for replacement buses in the near future.

Bus manufacturers have some forward order visibility due to the fleet planning, budgeting and funding application processes customers undertake in order to purchase new vehicles. The Company tracks new and potential orders in a "pipeline" or "bid universe" as a key indicator in support of management's forecast for overall market demand and bid activity for the heavy-duty transit bus industry in Canada and the United States. The pipeline of "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.

Equivalent Units	Bids in Process	Bids Submitted	Active EUs	Forecasted Future Industry Procurement over 5 Years(1)	Total Bid Universe
2012 Q1	2,390	3,107	5,497	9,603	15,100
2012 Q2	2,156	4,574	6,730	8,454	15,184
2012 Q3	3,334	2,542	5,876	11,854	17,730
2012 Q4	4,214	4,626	8,840	10,613	19,453
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**

(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.

While the bid universe reduced slightly in 2013 Q4, management believes this is primarily a result of timing. It is anticipated that the amount of procurement activity by public transit agencies throughout the United States and Canada will remain robust throughout 2014, based on the Company's experience during the first quarter of fiscal 2014, expected customer fleet replacement plans and the expiry of current customer contracts during the next two years.

Propulsion Systems

According to the "2013 APTA Public Transportation Vehicle Database", 40.4% of the U.S. bus fleet is powered by alternate fuels. The portion of alternate fuel vehicles has been rising rapidly; in 2004 only 13.3% of the transit bus fleet was alternate powered, and in 1992 only 2% of the bus fleet ran on alternative fuels. Natural gas vehicles, hybrids, and biodiesel are the most common alternate fuels for transit buses. Natural gas vehicles comprise 20% of the bus fleet, hybrids comprise 13.2%, and biodiesel comprise 7%. Sixty-one APTA member agencies have hybrid buses in their fleets, and hybrids make up 11% of the vehicles on order at transit agencies. The New York MTA has the largest fleet of hybrid buses, with over 1,600 vehicles. Washington Metrobus and King County DOT both have large hybrid fleets of over 600 buses each. Seventeen U.S. transit agencies (13% of responding agencies) have 100% alternate fuel bus fleets.

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

2013 Year in Review

Management was able to complete a number of strategic transactions critical to achieving the objective of continued long-term growth and diversification.

<u>Accomplishments</u>

- Marcopolo's 19.99% equity investment in NFI (at an approximate 20% premium to the 30 day volume weighted average share price on the TSX).
- Successful renewal and amendment of the Credit Facility and extension to 2017.
- Orion Parts acquisition and integration. Relocation of Kentucky warehouse.
- NABI Parts and NABI Bus acquisition
- Chicago Transit Authority ("CTA") mid-life overhaul program launch (involving over 1,000 buses).
- Rationalized Winnipeg's manufacturing facility to a single assembly line.
- Completed weld kitting rationalization in Winnipeg.
- Improved the Canadian Manufacturers and Exporters' LEAN assessment score for 5th consecutive year to 3.8 out of 5.
- Increased order backlog from $2.7 billion at end of fiscal 2012 to $3.7 billion at end of Fiscal 2013.
- Launch of Los Angeles completion and service facility.
- Launch/Implement both a Human Resources Information System and a Customer Relationship Management system.
- MiDi® product launch and production line set up in St Cloud.
- Creation of a Winnipeg campus – a reduction in the number of Winnipeg facilities, from originally five buildings to just two.
- Completed new four-year collective bargaining agreement with members of St. Cloud's Communication Workers of America.

Also, during Fiscal 2013, New Flyer initiated an assessment of the acquisition of NABI Bus. The assessment included NABI Bus site visits by all of the New Flyer operations groups and visits to the three New Flyer manufacturing sites by the NABI Bus leadership team, with the objective of determining strengths and opportunities within the two organizations and identify any potential synergies. All of the groups are reviewing and implementing various initiatives identified during the assessment based on priorities established by management. Priorities will be set based on return on investment of time and resources. Longer term synergies identified as major projects will be prioritized, assigned to specific leadership and scheduled for completion. Department heads in each organization are building relationships to share best practices. Visits and analysis will continue on a regular schedule to understand each company's processes and controls and continue to build on strengths.

The aftermarket group also initiated a review of NABI Parts' aftermarket business during Fiscal 2013. The integration factors reviewed included; common expense categories, freight rates and packaging supplies, vendor cost differentials for same part sales, market coverage and commonality of bid opportunities where bidding/quoting overlap. A detailed review of the findings has begun.

New Flyer and NABI Parts continue to be operated separately with management continuing to execute on its business plans and capture synergies where possible, with a focus on information technology systems as the key to understanding future cost saving initiatives.

The Company introduced MiDi®, New Flyer's mid-sized bus ideal for use in the medium-duty transit markets, to the market at the APTA conference in May of 2013, and has since been demonstrating MiDi® buses for community shuttle and medium-duty transit applications at national and regional trade shows, as well as through on-site customer visits and customer trials. The MiDi® is a mid-sized, low-floor, ultra-clean diesel powered, quiet bus that is ideal for use in community shuttle/transportation, airport, university and hotel shuttle services. Available in 30' and 35' lengths, the streamlined design of the MiDi® provides greater maneuverability while maintaining excellent accessibility for passengers with one or two doors and a 1:6 slope wheelchair ramp. Substantially lighter than vehicles in its class, MiDi® was developed though a joint venture with the UK's leading bus manufacturer, Alexander Dennis Limited, and leveraged on their proven E200 design with over 16,000 vehicles deployed worldwide.

On February 18, 2014, the Company signed an agreement with ABC Companies, Inc. ("ABC") to serve as the exclusive distributor of New Flyer's MiDi® and Xcelsior® transit bus models to United States private bus and shuttle operators. Under the terms of the agreement, ABC will market, sell and provide aftermarket sales service for New Flyer's MiDi® and Xcelsior® transit buses through its established service locations and select independent dealerships. Management believes that this sales channel approach provides the most efficient means of accessing the private shuttle market. The private shuttle operator market is incremental volume to New Flyer's core business of public transit sales. On a per bus basis, this specific venture is dilutive to overall contribution margin, however New Flyer's sales, general and administration costs per EU to access this market through ABC are substantially less than are required for public transit sales and substantially less than would have to be invested if New Flyer were to sell directly to private customers. All New Flyer products purchased through ABC will be fully supported by New Flyer's industry leading warranty, genuine New Flyer spare parts, and lifetime customer care programs.

On March 4, 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 distributor's agreement in April 2011, to distribute the Xcelsior® heavy duty transit bus. Girardin will now 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 aftermarket sales service for the MiDi® and Xcelsior® transit buses through its established service locations. All New Flyer products purchased through Girardin will be fully supported by New Flyer's industry leading warranty, genuine New Flyer spare parts, and lifetime customer care programs.

This amended agreement has already generated success with three recent bus awards. The first official MiDi® contract for a single 30-foot bus has been awarded by Autobus Robert Paquette, a transportation provider based out of Quebec, Canada. This order is currently being manufactured and is expected to be delivered in the second quarter of 2014. As well, Keolis Canada, a passenger transport service provider in the Montreal area has awarded a contract for five Xcelsior® 40-foot heavy duty buses in addition to eight 30-foot MiDi® buses. The five Xcelsior® buses are anticipated to be delivered in the second quarter of 2014 and the eight MiDi® buses are anticipated to be delivered in the third quarter of 2014. Additionally, Le Groupe Transbus has also awarded a contract for three Xcelsior® heavy duty 40-foot clean diesel buses to be delivered in the third quarter of 2014.

Bus order activity during 2013 Q4

New orders (firm and options) for New Flyer and NABI Bus for the 13-week period ended December 29, 2013 (“2013 Q4”) totaled 331 EUs. The new firm and option orders awarded to New Flyer for the last twelve months (“LTM”) ending December 29, 2013 were 5,279 EUs compared to 1,620 EUs during the 52-week period ended December 30, 2012 (“Fiscal 2012”). Also, New Flyer was successful at converting 223 EUs of options during 2013 Q4, which contributed to the 601 EUs of options converted in Fiscal 2013 as compared to 970 EUs during Fiscal 2012.

	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 2012	28	537	148	1,270
Q2 2012	90	229	408	1,036
Q3 2012	447	574	224	932
Q4 2012	1,055	1,620	190	970
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**

At the end of 2013 Q4, new firm and option orders of 312 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.

The total backlog at the end of 2013 Q4 was 7,678 EUs, an increase of 21.4% from the backlog at the end of the 13-week period ended December 30, 2012 (“2012 Q4”). The firm portion of the total backlog at the end of 2013 Q4 is made up of 2,276 EUs which has increased 36.1% compared with 1,672 EUs at the end of 2012 Q4. The total value of the order backlog at the end of 2013 Q4 was $3.7 billion, compared with $2.7 billion at the end of 2012 Q4. New Flyer's current backlog includes orders for clean propulsion vehicles (such as electric-hybrid, electric-trolley, compressed natural gas, liquid natural gas and all-electric) representing approximately 72% of the total orders.

In 2013 Q4, a total of 1,628 option EUs expired, relating to four U.S. customer contracts which reached the end of their respective contract terms. The maximum term for a contract permitted by the FTA is five years. Specifically, 1,800 EUs were removed from the New Flyer backlog relating to one U.S. customer order that was added to the backlog in 2008 and then deferred by the customer in 2009. Since that deferred order has now reached five years in duration with no activity, the Company has removed all 280 firm EUs and options for 1,520 EUs from the New Flyer backlog. The Company had not included this order in any of its production plans since 2009.

Deliveries in 2013 Q4 were 635 EUs, which increased 64.1% from 386 EUs delivered in 2012 Q4, primarily due to the addition of NABI Bus deliveries. The Company line entered 588 EUs in 2013 Q4.

New Flyer's Book-to-Bill ratio (defined as new order intake – both firm and options - divided by deliveries) for Fiscal 2013 was 241% as compared to only 98% for Fiscal 2012. A ratio of above 100% implies that more orders were received than filled, indicating strong demand for New Flyer products.

The total New Flyer backlog combined with the recent order intake is expected to enable the Company to continue to operate during fiscal 2014 at a corporate average line entry rate of approximately 48 EUs per production week from the New Flyer and NABI Bus production facilities.

Aftermarket order activity during 2013 Q4

Gross parts orders received by New Flyer's aftermarket business during 2013 Q4 (inclusive of NABI Parts and the integrated Orion parts business) increased 135% compared to 2012 Q4. Parts shipments in 2013 Q4 also increased 135% over 2012 Q4.

Quarter-over-quarter 2013 Q4 gross parts orders rose 24.2% over 2013 Q3, while parts shipments were up 16.3% over 2013 Q3 (inclusive of NABI Parts and the integrated Orion parts business). The Company continues to experience a challenging price environment in regular parts sales activity.

New Flyer parts order intake and delivery continues to be positively impacted by the ramp up for the previously announced CTA midlife overhaul program for 1,047 buses, which is expected to run through 2015.

Fiscal 2013 and Fourth Quarter Financial Results

The Company generated consolidated revenue of $381.2 million for 2013 Q4, an increase of 83.2% compared to consolidated revenue for 2012 Q4 of $208.1 million, and consolidated revenue for Fiscal 2013 of $1.2 billion, an increase of 38.6% from consolidated revenue for Fiscal 2012 of $865.3 million.

Revenue from bus manufacturing operations for 2013 Q4 was $313.2 million, an increase of 74.8% from $179.2 million in 2012 Q4, and revenue of $984.4 million for Fiscal 2013 increased 31.9% from $746.2 million for Fiscal 2012. The increase in 2013 Q4 revenue primarily resulted from a 64.1% increase in total bus deliveries of 635 EUs in 2013 Q4 compared to 2012 Q4 deliveries of 387 EUs and from an 6.5% increase in average selling price per EU in 2013 Q4 compared to 2012 Q4. Bus deliveries during 2013 Q4 were positively impacted by the reduction of 47 EUs from the previous quarter's WIP total. The average selling price per EU in 2013 Q4 was $493.3 thousand which increased compared to $463.0 thousand in 2012 Q4. This 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. Bus deliveries in Fiscal 2013 totaled 2,191 EUs, which also increased 32.3% compared to 1,656 EUs in Fiscal 2012, while the average selling price per EU in Fiscal 2013 of $449.3 thousand remained comparable to $450.6 thousand in Fiscal 2012. The increased deliveries primarily were as a result of including NABI bus deliveries effective June 21, 2013.

Revenue from aftermarket operations in 2013 Q4 was $68.0 million, an increase of 134.9% compared to $28.9 million in 2012 Q4. Revenue from aftermarket operations for Fiscal 2013 was $215.0 million, an increase of 80.6% compared to $119.1 million in Fiscal 2012. 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 subsequent to the March 1, 2013 acquisition date and the NABI Parts business subsequent to June 21, 2013.

Consolidated Adjusted EBITDA for 2013 Q4 totaled $36.8 million (9.8% of revenue) compared to $14.5 million (7.2% of revenue) in 2012 Q4, which represents an increase of 154.9%. In comparing the respective periods, this increase in consolidated Adjusted EBITDA is primarily due to increased bus deliveries, increased realized ITCs and the incremental Adjusted EBITDA produced by the NABI bus and parts operations and from the Orion parts business.

2013 Q4 bus manufacturing operations Adjusted EBITDA of $27.3 million (8.7% of revenue) increased 168.8% compared with 2012 Q4 bus manufacturing operations Adjusted EBITDA of $10.2 million (5.7% of revenue) primarily due to increased bus deliveries as a result of a successful effort to reduce year-end WIP, the addition of the NABI bus operations and an increase of $4.9 million of ITCs realized 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.

2013 Q4 aftermarket operations Adjusted EBITDA of $9.5 million (14.0% of revenue) increased 121.9% compared to $4.3 million (14.8% of revenue) in 2012 Q4, 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 percentage of revenue was negatively impacted by the expected lower than average margins relating to the CTA mid-life overhaul program.

Fiscal 2013 consolidated Adjusted EBITDA of $94.7 million (7.9% of revenue) increased by 55.7% compared to Fiscal 2012 consolidated Adjusted EBITDA of $60.8 million (7.0% of revenue).

Bus manufacturing operations Adjusted EBITDA of $63.7 million (6.5% of revenue) for Fiscal 2013 increased 54.6% compared to $41.2 million (5.5% of revenue) for Fiscal 2012. This increase in Adjusted EBITDA is primarily a result of the addition of the NABI Bus operations and an increase of $7.6 million of ITCs realized.

Aftermarket operations Adjusted EBITDA for Fiscal 2013 of $31.0 million (14.4% of revenue) represents an increase of 58.5% over Fiscal 2012 aftermarket operations Adjusted EBITDA of $19.6 million (16.4% of revenue), primarily due to the additional Adjusted EBITDA generated by the NABI Parts, the Orion parts businesses and the CTA midlife overhaul program offset by margin compression as a result of pricing pressure in the market. The aftermarket operations Adjusted EBITDA for Fiscal 2013 was normalized for $1.2 million of non-recurring transitional costs relating to business acquisitions and $4.3 million of costs associated with assessing strategic and corporate initiatives.

The Company reported net earnings of $13.7 million in 2013 Q4, an increase compared to net earnings of $3.9 million in 2012 Q4, primarily as a result of $16.3 million increase in earnings from operations offset by increased income taxes. Similarly, Fiscal 2013 net earnings of $26.8 million increased compared to Fiscal 2012 net earnings of $9.3 million.

The Company generated Free Cash Flow of C$15.7 million during 2013 Q4 while declaring dividends of C$8.1 million as compared to C$7.5 million of Free Cash Flow generated in 2012 Q4 and declared dividends of C$6.5 million. The amount of dividends declared increased in 2013 Q4 as a result of issuing 11.1 million Shares in Fiscal 2013 to Marcopolo. During Fiscal 2013, New Flyer generated Free Cash Flow of C$45.1 million while declaring dividends of C$30.7 million as compared to C$27.1 million of Free Cash Flow generated in Fiscal 2012 and declared dividends of C$33.1 million. The amount of dividends declared in Fiscal 2013 is lower than Fiscal 2012 as a result of reducing the annual dividend rate to C$0.585 per Share, effective for all dividends declared after August 20, 2012. Management believes that sufficient Free Cash Flow will be generated to maintain the current dividend rate.

The December 29, 2013 liquidity position of $69.2 million is comprised of available cash of $11.9 million and $57.3 million available under the Company's revolving credit facility ("Revolver") as compared to liquidity positions of $90.5 million at September 29, 2013 and $47.0 million at December 30, 2012. As at December 29, 2013, there were $35.0 million of direct borrowings and $22.7 million of outstanding letters of credit related to the $115.0 million Revolver. During 2013 Q4, the Company decreased its liquidity position by $21.3 million primarily as a result of increased non-cash working capital, primarily made up of accounts receivables relating to increased bus deliveries at the end of 2013 Q4. The $23.0 million proceeds borrowed from the Revolver during 2013 Q4 was primarily used for working capital needs. Due to 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's December 29, 2013 liquidity position increased $22.2 million as compared to December 30, 2012. This increase is primarily the result of the Company negotiating a $25.0 million increase in the Revolver.

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

Market and Business Outlook

Management estimates that heavy-duty bus manufacturers delivered approximately 5,083 EUs in 2013 to Canadian and US transit operators, which is similar to the total number of estimated EUs delivered in 2012. This is consistent with the estimated range of deliveries over the last 15 years (from 4,000 EUs to 6,000 EUs).

Management estimates that New Flyer's actual market share of EUs delivered in Canada and the United States for 2013 was approximately 43%, an increase from its estimated market share of 32% for 2012. The increase was primarily as a result of the acquisition of NABI in June 2013 and the assignment of the remaining Orion bus sales contracts prior to its departure in December 2012..

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

Starting in 2012, the bid universe, active competitions and the New Flyer backlog (firm and options) achieved substantial recovery, which management believes was the beginning of a new purchasing cycle in the industry, similar to the cycle in 2007 and 2008. Management believes that transit agencies are again getting into a cadence of multi-year procurements (typically five years in the United States).

New Flyer's total order book at December 29, 2013 was $3.7 billion and now includes 2,276 firm EUs and 5,402 option EUs with an LTM Book-to-Bill ratio over 100% for four consecutive quarters. At the date hereof, approximately 75% of fiscal 2014's production slots have been filled (New Flyer and NABI Bus combined) which is more than double than the number of production slots filled for Fiscal 2013 at this point last year.

While the active competitions in the bid universe showed a slight decrease in 2013 Q4, management believes a number of competitions are to be released in the first half of 2014. Notwithstanding the recent growth in backlog, management does not currently anticipate increasing the yearly average weekly line entry rate of 48 EUs or the delivery rates in 2014. This is primarily because the Company's firm orders are not sequential (meaning they cannot all be built in 2014) and the option portion of the awards will be exercised over the life of the contracts. Further, the time from award to production is not immediate and can take between 6 and 12 months before the firm portion of the contract is line entered in production. This creates a time lag before any sustainable increases in production rates can be achieved.

Management reiterates its previous advice that the performance of the Company is subject to significant quarterly volatility with margins being affected by factors such as: bus type and length, propulsion system, contract rates and unique customizations required by customers. Further, actual weekly production rates can vary by a few EUs up or down depending on the buses built in that period. Comparing one individual fiscal quarter performance to another may not be appropriate as the average margins realized will be dependent on the margin mix of buses delivered in that period.

2013 Q4 was an exceptionally strong quarter as a result of a high number of EU deliveries, strong margin on specific EUs delivered, the reversal of the long-term incentive plan provision, and material ITCs realized in 2013 Q4 (which represented more than 50% of the ITCs realized for the entire Fiscal 2013). Based on its current projections, management anticipates that 2014 Q1 Adjusted EBITDA will be significantly less than 2013 Q4 (and is likely to be lower than 2013 Q1 Adjusted EBITDA) as a result of several factors, including the number of deliveries in the quarter is expected to be approximately 100 EUs lower than the 635 EUs delivered in 2013

Q4 and the impact of lower margins due to the competitive bidding environment discussed above. As a result of the contract mix, the average number of line entries in 2014 Q1 has decreased to 45 EUs per production week and the number of EUs in WIP at the end of 2014 Q1 is currently planned to be 65 EUs higher than at the end of Fiscal 2013. Also, management currently anticipates that 2014 Q1 Adjusted EBITDA will include a reduction of realized ITCs as compared to the $4.9 million of ITCs realized in 2013 Q4. Management does expect to realize the remaining $13.7 million in ITCs over the next two to three years; however, the amount realized on a quarterly basis is volatile.

Management believes it is more accurate to estimate performance of the Company by comparing the LTM results at the end of the current period against the previous period's LTM results. Management forecasts that even with factoring in the lower results for 2014 Q1, the Company's LTM at the end of 2014 Q1 is expected to approximate the LTM at the end of 2013 Q4.

Going forward and with the departure from the industry of Orion in 2012, management anticipates industry capacity to be more aligned with demand. 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 currently plans to increase the average production line entry rate to approximately 49 EUs per production week for the last three quarters of fiscal 2014 to offset the expected reduced deliveries in 2014 Q1 in order to maintain the yearly average line entry rate of 48 EUs per production week. the remainder of fiscal 2014 to maintain the yearly average line entry rate of 48 EUs per production week.

With respect to the aftermarket segment, the acquisition of the Orion parts business on March 1, 2013 and the NABI Parts acquisition on June 21, 2013, have increased the Company's share of this segment. As a result, management believes that New Flyer grew its market share in Fiscal 2013 compared to Fiscal 2012 from 18% to approximately 28%. Market size and share is estimated using publicly available information relating to customers' material and maintenance budgets, management estimates and general industry intelligence. Management is very encouraged by its efforts to continue to grow the aftermarket parts business. The Company has completed the integration of the Orion aftermarket parts business into the New Flyer parts business and is actively engaged in a strategic review of the NABI Parts businesses.

Management continues to expect that the Company will remain in compliance with all credit facility covenants and will be able to maintain dividends at current levels.

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 (loss)	EBITDA (1)	Adjusted EBITDA (1)	Earnings (loss) per share
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**
2011	Q4	$ 253,221	$ 30,063	$ 15,632	$ 35,214	$ 15,855	$ 0.35
	Q3	227,799	15,764	13,997	18,228	22,206	0.57
	Q2	224,511	12,811	(7,319)	18,765	20,037	(1.48)
	Q1	210,967	14,991	(6,361)	20,943	21,989	(1.29)
	Total	**$ 916,498**	**$ 73,629**	**$ 15,949**	**$ 93,150**	**$ 80,087**	**$ 0.81**

Fiscal Period	Quarter	Inventory, Beginning (equivalent units)(2)	NABI inventory acquired (equivalent units)(2)	New Line Entry (equivalent units)(2)	Deliveries (equivalent units)(2)	Inventory, Ending (equivalent units)(2)	Inventory comprised of: Work in process (equivalent units)(2)	Finished goods (equivalent units)(2) & (3)
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**
2011	Q4	238	—	421	470	189	185	4
	Q3	236	—	444	442	238	233	5
	Q2	218	—	449	431	236	224	12
	Q1	209	—	477	468	218	200	18
	Total	**209**	**—**	**1,791**	**1,811**	**189**	**185**	**4**

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

$U.S. in thousands	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4
Decrease in revenue	3,377	1,342	1,509	3,697	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 2013 AND 2012 ANNUAL AND FOURTH QUARTER RESULTS

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

		13-Weeks Ended December 29, 2013		13-Weeks Ended December 30, 2012 (*restated)		**52-weeks Ended December 29, 2013**		52-Weeks Ended December 30, 2012 (*restated)
Statement of Earnings Data								
Revenue								
Canada	$	22,332	$	13,490	$	128,945	$	122,372
U.S.		290,890		165,708		855,480		623,828
Bus manufacturing operations		313,222		179,198		984,425		746,200
Canada		16,271		8,789		58,567		37,189
U.S.		51,711		20,154		156,432		81,861
Aftermarket operations		67,982		28,943		214,999		119,050
Total revenue	$	381,204	$	208,141	$	1,199,424	$	865,250
Earnings from operations(1)	$	23,977	$	7,725	$	51,109	$	33,491
Earnings before finance costs and income taxes		22,191		7,469		48,963		25,163
Net earnings		13,732		3,929		26,761		9,290
EBITDA(1)		31,281		14,061		79,110		52,287
Adjusted EBITDA(1)								
Bus manufacturing operations including realized foreign exchange losses/gains		27,313		10,163		63,649		41,248
Aftermarket operations		9,517		4,288		31,036		19,577
Total Adjusted EBITDA(1)	$	36,830	$	14,451	$	94,685	$	60,825
Other Data (unaudited)								
Canada		51		33		317		292
U.S.		584		354		1,874		1,364
Total deliveries (equivalent units)(2)		635		387		2,191		1,656
Total capital expenditures	$	9,156	$	3,286	$	16,507	$	12,856
New options awarded	$	57,539	$	272,529	$	1,765,869	$	310,307
New firm orders awarded	$	98,161	$	192,672	$	936,894	$	392,887
Exercised options		104,294		74,613		274,401		430,060
Total firm orders	$	202,455	$	267,285	$	1,211,295	$	822,947

(*) Revenue for the 13-weeks and 52-weeks ended December 30, 2012 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, EBITDA and Adjusted EBITDA are not recognized earnings measures and do not have standardized meanings prescribed by IFRS. Therefore, Earnings from Operations, EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See "Definitions of Earnings from Operations, EBITDA, Adjusted EBITDA and Free Cash Flow" above. Management believes that Earnings from Operations, EBITDA and Adjusted EBITDA are useful supplemental measures in evaluating performance of NFI.

(Unaudited, U.S. dollars in thousands)	**December 29, 2013**		December 30, 2012		January 1, 2012	
Selected Statement of Financial Position Data						
Total assets	$ 1,135,852		$ 897,224		$ 870,462	
Long-term financial liabilities	346,233		322,844		313,574	
Other Data		Equivalent Units(2)		Equivalent Units(2)		Equivalent Units(2)
Firm orders – USA	$ 1,031,743	2,088	$ 676,266	1,525	$ 585,517	1,305
Firm orders – Canada	71,220	188	64,578	147	72,390	171
Total firm orders	1,102,963	2,276	740,844	1,672	657,907	1,476
Options – USA	2,442,771	5,136	1,787,685	4,320	2,204,229	5,286
Options – Canada	111,444	266	145,090	333	139,275	335
Total options	2,554,215	5,402	1,932,775	4,653	2,343,504	5,621
Total backlog	$ 3,657,178	7,678	$ 2,673,619	6,325	$ 3,001,411	7,097

Equivalent Units in Backlog	**52 Weeks Ended December 29, 2013**		52 Weeks Ended December 30, 2012		52 Weeks Ended January 1, 2012	
	Firm orders	Options	Firm orders	Options	Firm orders	Options
Beginning of period	1,672(4)	4,653(5)	1,476(4)	5,621(5)	1,897(4)	6,815(5)
New orders	1,923	3,356	882	738	182	477
NABI acquired backlog	551	608	—	—	—	—
Options exercised	601	(601)	970	(970)	1,208	(1,208)
Shipments	(2,191)	—	(1,656)	—	(1,811)	—
Removal of deferred order(4) (5)	(280)	(1,520)	—	—	—	—
Cancelled/expired	—	(1,094)	—	(736)	—	(463)
End of period	2,276	5,402	1,672(4)	4,653 (5)	1,476(4)	5,621(5)

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

2014 Q1	28
2014 Q2	863
2014 Q3	259
2014 Q4	498
2014	1,648
2015	858
2016	216
2017	606
2018	2,074
Total options	5,402

(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, US dollars in thousands)	**13-Weeks Ended December 29, 2013**	13-Weeks Ended December 30, 2012	**52-weeks Ended December 29, 2013**	52-weeks Ended December 30, 2012
Net earnings	$ 13,732	$ 3,929	$ 26,761	$ 9,290
Addback[(1)]				
Income taxes	5,221	205	7,856	723
Finance cost	3,238	3,335	14,346	15,150
Amortization	7,304	6,336	28,001	24,326
Fair value adjustment to embedded derivatives	—	—	—	1,395
Unrealized foreign exchange loss on non-current monetary items and forward foreign exchange contracts	1,786	256	2,146	1,403
EBITDA[(2)]	31,281	14,061	79,110	52,287
Costs associated with assessing strategic and corporate initiatives[(6)]	575	390	5,989	742
Loss on exercise of redemption right[(5)]	—	—	—	5,530
Past service pension costs [(3)]	—	—	—	1,762
Realized investment tax credits[(7)]	4,873	—	8,135	504
Non-recurring transitional costs relating to business acquisitions[(8)]	—	—	1,152	—
Stock-based compensation	101	—	299	—
Adjusted EBITDA[(2)]	$ 36,830	$ 14,451	$ 94,685	$ 60,825

RECONCILIATION OF CASH FLOW TO EBITDA AND ADJUSTED EBITDA

(Unaudited, US dollars in thousands)	**13-Weeks Ended December 29, 2013**	13-Weeks Ended December 29, 2012	**52-weeks Ended December 29, 2013**	52-weeks Ended December 29, 2012
Net cash (used) generated by operating activities	$ (2,501)	$ (4,842)	$ 29,979	$ 5,523
Addback[(1)]				
Changes in non-cash working capital items	33,463	12,005	22,988	24,003
Defined benefit funding	2,157	3,307	8,714	7,336
Defined benefit expense	(815)	(438)	(2,778)	(4,304)
Interest paid	1,848	4,567	10,949	17,073
Loss on exercise of redemption right[(5)]	—	—	—	(5,530)
Realized investment tax credits	(5,086)	—	(9,603)	(504)
Stock-based compensation	(101)	—	(299)	—
Foreign exchange (loss) gain on cash held in foreign currency	(497)	(33)	192	2,150
Income taxes paid (recovered)[(4)]	2,813	(505)	18,968	6,540
EBITDA[(2)]	31,281	14,061	79,110	52,287
Costs associated with assessing strategic and corporate initiatives[(6)]	575	390	5,989	742
Loss on exercise of redemption right[(5)]	—	—	—	5,530
Past service pension costs [(3)]	—	—	—	1,762
Realized investment tax credits[(7)]	4,873	—	8,135	504
Non-recurring transitional costs relating to business acquisitions[(8)]	—	—	1,152	—
Stock-based compensation	101	—	299	—
Adjusted EBITDA[(2)]	$ 36,830	$ 14,451	$ 94,685	$ 60,825

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

(4) As a result of the Company's multinational corporate structure, income taxes paid are subject to high degrees of volatility due to the mix of U.S. and Canadian earnings. Income taxes paid in Fiscal 2013 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 Fiscal 2012.

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

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

(7) The Company recognizes ITCs in Adjusted EBITDA only during the period in which they are applied against income taxes payable. During Fiscal 2013 the Company recognized $9,603 of ITCs, however a related contractual liability exists to a third party of $1,468.

(8) 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, US dollars in thousands)	**13-Weeks Ended December 29, 2013**	13-Weeks Ended December 30, 2012	**52-weeks Ended December 29, 2013**	52-weeks Ended December 30, 2012
Net cash (used) generated by operating activities	$ (2,501)	$ (4,842)	$ 29,979	$ 5,523
Changes in non-cash working capital items(3)	33,463	12,005	22,988	24,003
Interest paid(3)	1,848	4,567	10,949	17,073
Interest expense(3)	(3,136)	(2,895)	(11,606)	(14,553)
Income taxes paid (recovered)(3)	2,813	(505)	18,968	6,540
Current income tax expense(3,10)	(10,333)	(2,875)	(23,849)	(12,809)
Principal portion of finance lease payments	(386)	(562)	(2,003)	(2,418)
Cash capital expenditures (9)	(8,109)	(606)	(13,836)	(3,955)
Non-recurring transitional costs relating to business acquisitions(10)	—	—	1,152	—
Costs associated with assessing strategic and corporate initiatives(8)	575	390	5,989	742
Past service costs (6)	—	—	—	1,762
Defined benefit funding(4)	2,157	3,307	8,714	7,336
Defined benefit expense(4)	(815)	(438)	(2,778)	(4,304)
Realized investment tax credits(11)	(213)	—	(1,468)	—
Foreign exchange gain on cash held in foreign currency(5)	(497)	(33)	192	2,150
Free Cash Flow (US$)(1)	14,866	7,513	43,391	27,090
U.S. exchange rate(2)	1.0560	0.9965	1.0390	0.9997
Free Cash Flow(1) (C$)	**15,700**	**7,487**	**45,085**	**27,082**
Free Cash Flow per Share (C$)(7)	0.2831	0.1687	0.8682	0.6102
Declared dividends on Shares (C$)	**8,112**	**6,490**	**30,706**	**33,081**
Declared dividend per Share (C$)(7)	$ 0.1462	$ 0.1462	$ 0.5913	$ 0.7454

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

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

(3) Changes in non-cash working capital are excluded from the calculation of Free Cash Flow as these temporary fluctuations are managed through the Company's $115.0 million Revolver which is available for use to fund general corporate requirements including working capital requirements, subject to borrowing capacity restrictions. Changes in non-cash working capital 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. The Company has adjusted amounts reported previously in the Fiscal 2012 financial statements as a result of the retrospective application of the amendments to IAS 19, Employee Benefits. For details please refer to Note 2.23 of the Financial Statements.

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

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

(7) Per Share calculations for Free Cash Flow (C$) and declared dividends (C$) are determined by dividing these amounts by the total of all issued and outstanding Shares using the weighted average over the period. The weighted average number of Shares outstanding for 2013 Q4 was 55,466,904 and 51,929,357 for Fiscal 2013. The weighted average number of Shares outstanding for 2012 Q4 and Fiscal 2012 was 44,379,070 in each case. During the 52-weeks ended January 1, 2012, the Company declared dividends of C$26,048 which equates to C$1.3236 of dividend per Share.

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

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

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

(11) The Company recognizes ITCs during the period in which they are applied against income taxes payable. During Fiscal 2013 the Company recognized $9,603 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.

Prices for U.S. contracts are in U.S. dollars and for Canadian contracts are in Canadian dollars. During Fiscal 2013, 84% of revenue was USD denominated and 16% was CAD denominated. As at December 29, 2013, the backlog consisted of firm CAD orders of 188 EUs ($71 million U.S. equivalent) representing approximately 6.5% of firm orders. CAD options at December 29, 2013 totaled 266 EUs ($111 million U.S. equivalent) representing approximately 4.4% 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 Fiscal 2013 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 Fiscal 2013, the Company recorded realized foreign exchange loss of $0.1 million (2012: $2.8 million gain).

At December 29, 2013, the Company had $35.5 million of foreign exchange forward contracts to buy Canadian dollars that range in expiry dates from January 2014 to May 2014. The related liability of $0.7 million (2012: $0.1 million) is recorded on the consolidated statements of financial position as a current derivative financial instruments liability and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the consolidated statements of net earnings and 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 31, 2012 to December 29, 2013 ("Fiscal 2013")			Period from January 2, 2012 to December 30, 2012 ("Fiscal 2012")		
	Period End Date	# of Calendar Weeks	# of Available Production Weeks	Period End Date	# of Calendar Weeks	# of Available Production Weeks
Quarter 1	March 31, 2013	13	12.4	April 1, 2012	13	12.6
Quarter 2	June 30, 2013	13	12.8	July 1, 2012	13	12.6
Quarter 3	September 29, 2013	13	12.4	September 30, 2012	13	12.4
Quarter 4	December 29, 2013	13	12.0	December 30, 2012	13	12.0
Fiscal year	December 29, 2013	52	49.6	December 30, 2012	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)	**2013 Q4 (13-Weeks)**	2012 Q4 (13-Weeks) *restated	**Fiscal 2013 (52-Weeks)**	Fiscal 2012 (52-Weeks) *restated
Bus Manufacturing Revenue	$ 313,222	$ 179,198	$ 984,425	$ 746,200
Aftermarket Revenue	67,982	28,943	214,999	119,050
Total Revenue	$ 381,204	$ 208,141	$ 1,199,424	$ 865,250
Earnings from Operations(1)	23,977	7,725	51,109	33,491
Earnings before interest and income taxes	22,191	7,469	48,963	25,163
Earnings before income taxes	18,953	4,134	34,617	10,013
Net earnings for the period	13,732	3,929	26,761	9,290

(*) Revenue for the 13-weeks and 52-weeks ended December 30, 2012 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 $381.2 million for 2013 Q4, an increase of 83.2% compared to consolidated revenue for 2012 Q4 of $208.1 million, and consolidated revenue for Fiscal 2013 of $1.2 billion, an increase of 38.6% from consolidated revenue for Fiscal 2012 of $865.3 million.

Revenue from bus manufacturing operations for 2013 Q4 was $313.2 million, an increase of 74.8% from $179.2 million in 2012 Q4, and revenue of $984.4 million for Fiscal 2013 increased 31.9% from $746.2 million for Fiscal 2012. The increase in 2013 Q4 revenue primarily resulted from a 64.1% increase in total bus deliveries of 635 EUs in 2013 Q4 compared to 2012 Q4 deliveries of 387 EUs and from an 6.5% increase in average selling price per EU in 2013 Q4 compared to 2012 Q4. Bus deliveries during 2013 Q4 were positively impacted by the reduction of 47 EUs from the previous quarter's WIP total. The average selling price per EU in 2013 Q4 was $493.3 thousand which increased compared to $463.0 thousand in 2012 Q4. This 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. Bus deliveries in Fiscal 2013 totaled 2,191 EUs, which also increased 32.3% compared to 1,656 EUs in Fiscal 2012, while the average selling price per EU in Fiscal 2013 of $449.3 thousand remained comparable to $450.6 thousand in Fiscal 2012. The increased deliveries primarily were as a result of including NABI bus deliveries effective June 21, 2013.

Revenue from aftermarket operations in 2013 Q4 was $68.0 million, an increase of 134.9% compared to $28.9 million in 2012 Q4. Revenue from aftermarket operations for Fiscal 2013 was $215.0 million, an increase of 80.6% compared to $119.1 million in Fiscal 2012. 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 subsequent to the March 1, 2013 acquisition date and the NABI Parts business subsequent to June 21, 2013.

Cost of sales

The consolidated cost of sales for 2013 Q4 of $338.2 million increased by 78.7% from 2012 Q4 consolidated cost of sales of $189.2 million. Fiscal 2013 consolidated cost of sales of $1.1 billion increased by 36.3% from Fiscal 2012 of $791.5 million.

Costs of sales from bus manufacturing operations consist of direct contract costs and manufacturing overhead. The cost of sales from bus manufacturing operations for 2013 Q4 was $284.9 million (91.0% of revenue from bus manufacturing operations) compared to $167.4 million (93.4% of revenue from bus manufacturing operations) in 2012 Q4, an increase of 70.2%. This increase in cost of sales primarily relates to 64.1% more deliveries in 2013 Q4 as compared to 2012 Q4. The cost of sales from bus manufacturing operations of $911.9 million (92.6% of revenue from bus manufacturing operations) in Fiscal 2013 increased by 30.0% as compared to $703.4 million (94.3% of revenue from bus manufacturing operations) in Fiscal 2012, which was also impacted by a $1.8 million of past service pension expense.

The cost of sales from aftermarket operations of $53.3 million (78.4% of aftermarket operations revenue) in 2013 Q4 increased 144.5% compared to $21.8 million (75.3% of aftermarket operations revenue) in 2012 Q4 and $166.7 million (77.5% of aftermarket operations revenue) in Fiscal 2013 as compared to $88.1 million (74.0% of aftermarket operations revenue) in Fiscal 2012, representing an increase of 89.2%, primarily as a result of the increase in sales volumes.

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

The consolidated SG&A for 2013 Q4 of $18.8 million increased 62.5% compared with $11.5 million in 2012 Q4. The increase in 2013 Q4 SG&A is primarily a result of the addition of NABI and $0.6 million of incremental costs to explore and assess strategic and corporate initiatives. Consolidated SG&A expenses for Fiscal 2013 were $69.5 million which increased 61.4% compared to $43.1 million in Fiscal 2012 primarily as a result of $6.0 million of incremental costs to explore and assess strategic and corporate initiatives, $10.7 million of incremental SG&A expenses for the recently acquired NABI operations, $1.2 million of non-recurring transitional costs relating to business acquisitions and increased general SG&A for inflation and to support ongoing operations.

Realized foreign exchange loss/gain

In 2013 Q4, the Company recognized a net realized loss of $0.2 million compared with a net realized gain of $0.4 million in 2012 Q4. During Fiscal 2013 the Company recognized a net realized loss of $0.1 million as compared with a net realized gain of $2.8 million in Fiscal 2012. During Fiscal 2012 the Company benefited from a greater amount of favourable settlements of foreign exchange contracts which resulted in an increased realized foreign exchange gain as compared to Fiscal 2013.

Earnings from operations

Consolidated earnings from operations for 2013 Q4 in the amount of $24.0 million (6.4% of revenue) increased 211.4% compared to earnings from operations in 2012 Q4 of $7.7 million (3.7% of revenue). Fiscal 2013 consolidated earnings from operations were $51.1 million (4.3% of revenue), which represents a 52.6% increase as compared to $33.5 million (3.9% of revenue) in Fiscal 2012.

The earnings from bus manufacturing operations (including amortization and depreciation) for 2013 Q4 were $15.5 million (5.0% of bus manufacturing revenue), compared to earnings of $3.4 million for 2012 Q4 (2.0% of bus manufacturing revenue). This increase is primarily due to increased bus deliveries and a more favourable sales mix when comparing the two periods. Fiscal 2013 earnings from bus manufacturing operations were $27.2 million (2.8% of revenue), an increase of 94.3% compared to $14.0 million (1.9% of revenue) in Fiscal 2012.

The earnings from aftermarket operations of $8.5 million (12.5% of aftermarket revenue) in 2013 Q4 increased 98.7% compared to 2012 Q4 earnings of $4.3 million (14.8% of aftermarket revenue). 2013 Q4 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 negatively impacted by the expected lower than average margins relating to the CTA midlife overhaul program. In Fiscal 2013, the earnings from aftermarket operations were $23.9 million (11.1% of aftermarket revenue), compared to $19.6 million (16.4% of aftermarket revenue) in Fiscal 2012. The decrease in margin percentage is primarily due to the continued pricing pressure during the period and the lower than average margins relating to the 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)	**2013 Q4**	2012 Q4	**Fiscal 2013**	Fiscal 2012
Unrealized loss on Canadian-denominated long-term debt	$ —	$ —	$ —	$ 1,702
Unrealized loss on forward foreign exchanges contracts	850	132	726	159
Unrealized loss (gain) on other long-term monetary assets/liabilities	936	124	1,421	(458)
	$ 1,786	$ 256	$ 2,146	$ 1,403

Earnings before interest and income taxes ("EBIT")

In 2013 Q4, the Company recorded EBIT of $22.2 million compared to EBIT of $7.5 million in 2012 Q4. EBIT has been impacted by non-cash and non-recurring items as follows:

(Unaudited, U.S. dollars in thousands)	**2013 Q4**	2012 Q4	**Fiscal 2013**	Fiscal 2012
Non-cash and non-recurring charges (recovery):				
Costs associated with assessing strategic and corporate initiatives	$ 575	$ 390	$ 5,989	$ 742
Fair value adjustment to embedded derivatives	—	—	—	1,395
Unrealized foreign exchange loss (gain)	1,786	256	2,146	1,403
Past service pension costs	—	—	—	1,762
Stock-based compensation	100	—	298	—
Non-recurring transitional costs relating to business acquisitions	—	—	1,152	—
Loss on exercise of redemption right	—	—	—	5,530
Amortization	7,304	6,336	28,001	24,326
Total non-cash and non-recurring charges:	$ 9,765	$ 6,982	$ 37,586	$ 35,158

Absent these non-cash charges/recoveries, the 2013 Q4 EBIT would have been $32.0 million compared to $14.5 million in 2012 Q4.

Finance costs

The finance costs for 2013 Q4 were $3.2 million, a decrease of 2.9% when compared to $3.3 million in 2012 Q4, while the finance costs in Fiscal 2013 of $14.3 million decreased 5.3% compared to $15.2 million in Fiscal 2012, primarily as a result of the capital structure conversion in Fiscal 2012 whereby the Company repurchased the 14% subordinated notes with proceeds from the $65.0 million issuance of the Debentures and refinanced the senior credit facility with lower interest rates.

Earnings before income taxes ("EBT")

EBT for 2013 Q4 of $19.0 million improved compared to EBT of $4.1 million in 2012 Q4. Similarly, EBT for Fiscal 2013 of $34.6 million improved compared to EBT of $10.0 million in Fiscal 2012. The difference in the EBT between these periods results from the increased earnings before interest and income taxes.

Income tax expense

The income tax expense for 2013 Q4 was $5.2 million, consisting of $10.3 million of current income tax expense and $5.1 million of deferred income tax expense recovered. In comparison, the income tax expense for 2012 Q4 was $0.2 million, which consisted of $2.9 million of current income tax expense and $2.7 million of deferred income tax expense recovered. The income tax expense for Fiscal 2013 was $7.9 million, consisting of $23.9 million of current income tax expense and $16.0 million of deferred income tax expense recovered. In comparison, the income tax expense for Fiscal 2012 was $0.7 million, consisting of $12.8 million of current income tax expense and $12.1 million of deferred income tax expense recovered.

Net earnings

The Company reported net earnings of $13.7 million in 2013 Q4, an increase compared to net earnings of $3.9 million in 2012 Q4, primarily as a result of $16.3 million increase in earnings from operations offset by increased income taxes. Similarly, Fiscal 2013 net earnings of $26.8 million increased compared to Fiscal 2012 net earnings of $9.3 million.

Cash Flow

The cash flows of the Company are summarized as follows:

(Unaudited, U.S. dollars in thousands)	**2013 Q4**	2012 Q4	**Fiscal 2013**	Fiscal 2012
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	$ 35,623	$ 11,225	$ 82,884	$ 53,139
Interest paid	(1,848)	(4,567)	(10,949)	(17,073)
Income taxes (paid) recovered	(2,813)	505	(18,968)	(6,540)
Net cash earnings	30,962	7,163	52,967	29,526
Changes in non-cash working capital items	(36,483)	(12,005)	(22,988)	(24,003)
Cash flow from operating activities	(5,521)	(4,842)	29,979	5,523
Cash flow from financing activities	13,833	14,924	93,045	4,348
Cash flow from investing activities	$ (9,437)	$ (1,932)	$ (122,502)	$ (10,972)

Cash flows from operating activities

The 2013 Q4 net operating cash outflow of $5.5 million is the result of an increase in non-cash working capital of $36.5 million partially offset by $31.0 million of net cash earnings compared to 2012 Q4 net operating cash outflow of $4.8 million which is the result of an increase in non-cash working capital of $12.0 million partially offset by $7.2 million of net cash earnings. The 2013 Q4 non-cash working capital changes that were primarily responsible for the significant outflow during the period are primarily due to increased accounts receivables resulting from increased bus deliveries offset by reduced WIP inventory. The non-cash working capital changes during 2012 Q4 were primarily as a result of increased WIP levels and decreased provision for warranty costs.

The Fiscal 2013 net operating cash inflow of $30.0 million is the result of $53.0 million of net cash earnings partially offset by an increase in non-cash working capital of $23.0 million, compared to Fiscal 2012 net operating cash inflow of $5.5 million which is the result of $29.5 million of net cash earnings partially offset by an increase in non-cash working capital of $24.0 million.

Cash flow from financing activities

The Company's financing activities resulted in a net cash inflow of $13.8 million and $14.9 million for 2013 Q4 and 2012 Q4, respectively. The cash inflow during 2013 Q4 primarily relates to the $23.0 million of the Revolver borrowings used to fund working capital and was offset by $7.8 million of dividends payments. The cash inflow during 2012 Q4 primarily relates to $23.0 million of proceeds from new draws on the Revolver which funded working capital needs and growth capital expenditures.

The net cash inflow generated by financing activities of $93.0 million during Fiscal 2013 primarily relates to $111.7 million of cash received from Shares issued to Marcopolo and $13.6 million of new term debt net of Revolver repayments and offset by $29.3 million for dividends. The net cash inflow used in financing activities during Fiscal 2012 of $4.3 million primarily relates to cash generated by Credit Facility proceeds which was partially offset by dividend payments of $34.0 million.

Cash flow from investing activities

2013 Q4 investing activities resulted in an increased net cash outflow of $9.4 million compared to $1.9 million in 2012 Q4, primarily as a result of PPE expenditures shown below. The Company's investing activities for Fiscal 2013 included a net cash outflow of $122.5 million to acquire NABI and Orion aftermarket parts business compared to a net cash outflow of $11.0 million in Fiscal 2012.

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

(Unaudited, U.S. dollars in thousands)	**2013 Q4**	2012 Q4	**Fiscal 2013**	Fiscal 2012
PPE expenditures	$ 9,156	$ 3,286	$ 16,507	$ 12,856
Less PPE expenditures funded as part of Orion parts business	—	—	(394)	—
Less PPE expenditures funded by capital leases	(119)	(1,365)	(674)	(2,058)
Acquisition of PPE reported on statement of cash flows	9,037	1,921	15,439	10,798
Less PPE expenditures funded by senior term loan for asset acquisitions *	(928)	(1,315)	(1,603)	(6,843)
Cash PPE expenditure	8,109	606	13,836	3,955

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

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, 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$15.7 million during 2013 Q4 while declaring dividends of C$8.1 million as compared to C$7.5 million of Free Cash Flow generated in 2012 Q4 and declared dividends of C$6.5 million. The amount of dividends declared increased in 2013 Q4 as a result of issuing 11.1 million Shares in Fiscal 2013 to Marcopolo. During Fiscal 2013, New Flyer generated Free Cash Flow of C$45.1 million while declaring dividends of C$30.7 million as compared to C$27.1 million of Free Cash Flow generated in Fiscal 2012 and declared dividends of C$33.1 million. The amount of dividends declared in Fiscal 2013 is lower than Fiscal 2012 as a result of reducing the annual dividend rate to C$0.585 per Share, effective for all dividends declared after August 20, 2012. Management believes that sufficient Free Cash Flow will be generated to maintain the current dividend rate.

The December 29, 2013 liquidity position of $69.2 million is comprised of available cash of $11.9 million and $57.3 million available under the Revolver as compared to a liquidity positions of $90.5 million at September 29, 2013 and $47.0 million at December 30, 2012. As at December 29, 2013, there were $35.0 million of direct borrowings and $22.7 million of outstanding letters of credit related to the $115.0 million Revolver. During 2013 Q4, the Company decreased its liquidity position by $21.3 million primarily as a result of increased non-cash working capital, primarily made up of accounts receivables relating to increased bus deliveries at the end of 2013 Q4. The $23.0 million proceeds borrowed from the Revolver during 2013 Q4 was primarily used for working capital needs.

The Company's December 29, 2013 liquidity position increased $22.2 million as compared to December 30, 2012. This increase is primarily the result of the Company negotiating a $25.0 million increase in the Revolver.

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

There are certain financial covenants under the Credit Facility that must be maintained. Per the Credit Facility the Debentures are treated as equity for purposes of calculating the total leverage ratio. These financial covenants include an interest coverage ratio and total leverage ratio. At December 29, 2013, the Company is in compliance with the ratios.

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

	December 29, 2013	December 30, 2012
Total Leverage Ratio (must be less than 3.25)	1.67	2.52
Interest Coverage Ratio (must be greater than 3.00)	9.21	4.23

Interest rate risk

In connection with the Credit Facility, the Company has rolled over the pre-existing interest rate swap designed to hedge floating rate exposure for the term of the Credit Facility on $142 million of drawn term loan. The new interest rate swap fixes the interest rate at 1.46% plus the applicable interest margin until April 2017. In comparison, the interest rate swap in place prior to the closing of the Credit Facility fixed the interest rate at 1.90% plus the applicable interest margin until April 2014. The fair value of the interest rate swap liability of $2.9 million at December 29, 2013 (December 30, 2012: $2.0 million) was recorded on the consolidated statements of financial position as a derivative financial instruments liability and the change in fair value has been recorded as finance costs for the reported period.

Credit risk

Financial instruments which potentially subject the Company to credit risk and concentrations of credit risk consist principally of cash, accounts receivable and derivatives. Management has assessed that the credit risk associated with accounts receivable is mitigated by the significant proportion for which the counterparties are well established transit authorities. Additionally, the U.S. federal government funds a substantial portion of U.S. customer payments, 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 consolidated statements of net earnings and comprehensive income.

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

	December 29, 2013	December 30, 2012
Current, including holdbacks	$ 213,101	$ 104,759
<u>Past due amounts but not impaired</u>		
1 – 60 days	16,370	6,251
Greater than 60 days	1,270	2,525
Less: allowance for doubtful accounts	(426)	(75)
Total accounts receivables, net	$ 230,315	$ 113,460

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

Commitments and Contractual Obligations

Commitments

The following table outlines the Company's maturity analysis of the undiscounted cash flows of certain non-current financial liabilities and leases as at December 29, 2013:

U.S. dollars in thousands	Total	2014	2015	2016	2017	2018	Post 2018
Senior term loan	$ 158,250	$ 5,000	$ 5,000	$ 5,000	$ 143,250	$ —	$ —
Convertible debentures	79,217	4,062	4,062	4,062	67,031	—	—
Other long-term liabilities	10,250	3,000	3,000	2,250	1,000	1,000	—
Finance leases	3,300	1,465	779	636	332	88	—
Accrued benefit liability	5,000	5,000	—	—	—	—	—
Operating leases	48,299	5,722	4,939	5,159	5,184	4,605	22,690
	$ 304,316	$ 24,249	$ 17,780	$ 17,107	$ 216,797	$ 5,693	$ 22,690

As at December 29, 2013, outstanding surety bonds guaranteed by the Company amounted to $147.2 million, representing an increase compared to $52.0 million at December 30, 2012. The estimated maturity dates of the surety bonds outstanding at December 29, 2013 range from January 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 December 29, 2013, letters of credit amounting to $22.7 million (December 30, 2012: $14.2 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 December 29, 2013.

Stock Option Plan

On March 21, 2013, the Board adopted a Share Option Plan (the "Option Plan") for NFI, under which employees of NFI and certain of its affiliates ("participants") may receive grants of share options. Directors who are not employed with NFI are not eligible to participate in the Option Plan. A maximum of 3,600,000 Shares are available for issuance under the Option Plan. Also on March 21, 2013, the Board approved grants of an aggregate of 490,356 share options (the "Options") to eleven executives, effective March 26, 2013. However, in accordance with the policies of the TSX, NFI was required to submit the Option Plan for approval by NFI's shareholders. The Option Plan and the ratification of the grant of the Options were approved by NFI's shareholders at the annual general meeting on May 9, 2013. The Options will expire on March 26, 2021. All of the Options have been granted to insiders. The Options will become vested as to one-quarter on the first anniversary of the grant date and an additional one-quarter on the second, third and fourth anniversary of the grant date. Each Option must be exercised no later than eight years after the grant date, at which time each Option will expire. No Options may be granted under the Option Plan after March 21, 2023.

All 490,356 originally granted Options are still outstanding at December 29, 2013. None of these Options have been vested or forfeited.

Effective December 30, 2013 (the "2014 grant date"), the Board approved grants of an aggregate of 612,050 Options to thirteen executives. The Options will expire on December 30, 2021. All of the Options have been granted to insiders. The Options will become vested as to one-quarter on the first anniversary of the 2014 grant date and an additional one-quarter on the second, third and fourth anniversary of the 2014 grant date.

Also, effective December 30, 2013 the Board granted and approved 83,273 RSUs and 166,546 PSUs to executives.

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 comprehensive income in the periods in which they become known. The assets and liabilities which require management to make significant estimates and assumptions in determining carrying values include, but are not limited to, inventories, derivative financial instruments, property, plant and equipment, intangible assets, goodwill, provision for warranty costs, accrued benefit 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. See note 2.6 in the Statements for certain assumptions made with respect to employee benefits.

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.

<u>Critical judgments in applying accounting policies</u>

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 OEM 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 focusing on the currency in which the transactions are denominated in. The functional currency of the Company is the United States dollar as it is the currency of the primary economic environment in which the Company operates. In addition, it is the competitive forces of the United States marketplace that determines the sales prices of its goods and services. Predominantly, the costs for labour, material and overhead that address the needs and support the Company's customers are incurred in United States dollars, and hence the pricing of goods and services to the customer is more greatly influenced from operations and the competitive forces in 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

<u>IAS 19 (Revised 2011) Employee Benefits:</u>

The main changes to the standard are the elimination of the corridor approach (with all changes to the defined benefit obligation and plan assets recognized when they occur) and calculation of net interest using a high quality corporate bond yield. Retrospective application is required with certain exceptions, effective January 1, 2013.

In preparing the 2012 comparative information, the Company has adjusted amounts reported previously in the interim condensed consolidated financial statements as a result of the retrospective application of the amendments to IAS 19, Employee Benefits. A statement of financial position as at January 1, 2012 is included in the Financial Statements as a result of the Company's retrospective application of the amendments to IAS 19, Employee Benefits. Refer to note 2.23 of the Financial Statements for details regarding adjusted amounts.

<u>IFRS 7 Financial Instruments: Disclosures, Amendment regarding Disclosures with respect to Offsetting:</u>

The disclosure requirements have also been amended with respect to offsetting financial assets and financial liabilities to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a company's financial position.

Retrospective application is required for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. There was no impact to the Financial Statements as a result of adopting this standard.

IFRS 13 Fair Value Measurement:

IFRS 13 establishes a single framework for fair value measurement as required by other IFRS standards and is applicable to both financial and non-financial items that are required or permitted by other standards to be measured at fair value, effective January 1, 2013. Prospective application is required. The standard does not have a significant impact on the Company's financial position or results of operations but does require additional disclosure related to fair value measurements. The standard has been applied on a prospective basis.

IAS 1 (Revised 2011) Presentation of Financial Statements:

Disclosure of other comprehensive income items between those that are recycled to profit or loss and those not recycled is required with retrospective application, effective for years beginning on or after July 1, 2012. The amended standard relates only to presentation and does not have an impact on the Company's financial position or results of operations. The amendments have been applied retroactively.

IFRS 10 Consolidated Financial Statements:

The new standard uses control as the single basis of consolidation for all entities with three elements to control: power over an investee; exposure or rights to variable returns; and the ability to affect returns. Retrospective application is required, subject to certain transitional provisions, effective January 1, 2013. The standard does not have a significant impact on the Company's financial position or results of operations.

IFRS 11 Joint Arrangements:

The new standard classifies arrangements as either joint operations or joint ventures. All interests in joint ventures should now be accounted for based on the equity method. Transitional provisions vary depending on how an interest is classified under IAS 31, effective January 1, 2013. The Company's existing joint arrangement is classified as a joint operation under the new standard with no significant change in the accounting.

IFRS 12 Disclosure of Interest in Other Entities:

IFRS 12 requires extensive disclosure relating to an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structure entities. Disclosure has been incorporated into the Company's notes to consolidated financial statements.

IAS 28 (as amended 2011) Investments in Associates:

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

Future Changes to Accounting Standards

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

IFRS 9 Financial Instruments:

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 2013 Q4 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 comprehensive income for the 52-week period ending December 29, 2013. 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

Consolidated Financial Statements of

NEW FLYER INDUSTRIES INC.

December 29, 2013

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Deloitte LLP
360 Main Street
Suite 2300
Winnipeg MB R3C 3Z3
Canada

Tel: 204-942-0051
Fax: 204-947-9390
www.deloitte.ca

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of New Flyer Industries Inc.

We have audited the accompanying consolidated financial statements of New Flyer Industries Inc., which comprise the consolidated statements of financial position as at December 29, 2013, December 30, 2012 and January 1, 2012, and the consolidated statements of net earnings and comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of New Flyer Industries Inc. as at December 29, 2013, December 30, 2012, and January 1, 2012 and its financial performance and cash flows for the years ended December 29, 2013 and December 30, 2012 in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants

March 19, 2014
Winnipeg, Manitoba

NEW FLYER INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF NET EARNINGS AND COMPREHENSIVE INCOME

52 weeks ended December 29, 2013 (“Fiscal 2013”) and 52 weeks ended December 30, 2012 (“Fiscal 2012”)

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

		Fiscal 2013		Fiscal 2012 Restated (notes 2.5, 2.23)
Revenue (note 20)	$	1,199,424	$	865,250
Cost of sales (note 4, 25)		1,078,657		791,480
Gross profit		120,767		73,770
Sales, general and administration costs and other operating expenses (note 25)		69,540		43,091
Foreign exchange loss (gain) (note 19c)		118		(2,812)
Earnings from operations		51,109		33,491
Unrealized foreign exchange loss on non-current monetary items		2,146		1,403
Loss on exercise of redemption right		—		5,530
Fair value adjustment to embedded derivatives		—		1,395
Earnings before finance costs and income taxes		48,963		25,163
Finance costs				
Interest on long-term debt and convertible debentures		8,749		11,852
Accretion in carrying value of long-term debt and convertible debentures		2,208		1,432
Other interest and bank charges		2,857		2,701
Fair market value adjustment on interest rate swap		532		(835)
		14,346		15,150
Earnings before income tax expense		34,617		10,013
Income tax expense (note 7)				
Current income taxes		23,849		12,809
Deferred income taxes recovered		(15,993)		(12,086)
		7,856		723
Net earnings for the period	$	26,761	$	9,290
Other comprehensive income (loss) for the period, net of tax				
Actuarial gain (loss) on defined benefit pension plan (note 17) – this item will not be reclassified subsequently to profit or loss (net of tax $940)		1,489		(1,639)
Total comprehensive income for the period	$	28,250	$	7,651
Net earnings per share (basic) (note 15)	$	0.52	$	0.21
Net earnings per share (diluted) (note 15)	$	0.51	$	0.21

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

NEW FLYER INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at December 29, 2013, December 30, 2012 and January 1, 2012
(in thousands of U.S. dollars)

	December 29, 2013	December 30, 2012 Restated (notes 2.5, 24)	January 1, 2012 Restated (notes 2.5, 24)
Assets			
Current			
Cash	$ 11,896	$ 11,182	$ 10,133
Accounts receivable (note 3,19c)	230,315	113,460	115,850
Inventories (note 4)	183,338	124,712	93,491
Derivative financial instruments	—	—	145
Prepaid expenses and deposits	7,658	4,724	5,077
	433,207	254,078	224,696
Property, plant and equipment (note 5)	64,832	42,024	37,397
Embedded derivative instruments	—	—	3,684
Unused investment tax credits (note 7)	13,659	23,262	23,766
Deferred tax assets (note 7)	55,290	49,332	36,558
Goodwill and intangible assets (note 6)	568,864	528,528	544,361
	$ 1,135,852	$ 897,224	$ 870,462
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 212,938	$ 150,828	$ 152,207
Income taxes payable	504	6,756	4,964
Current portion of deferred revenue (note 13)	57,614	23,430	4,213
Provision for warranty costs (note 24)	26,102	7,472	17,152
Current portion of long-term debt (note 10)	35,000	40,035	9,000
Derivative financial instruments (note 19 b,c)	740	14	—
Current portion of deferred compensation obligation (note 9)	258	—	1,404
Current portion of obligations under finance leases (note 8)	1,283	1,857	2,377
	334,439	230,392	191,317
Accrued benefit liability (note 17)	228	8,973	9,136
Obligations under finance leases (note 8)	1,770	2,314	2,102
Deferred compensation obligation (note 9)	1,663	1,233	262
Deferred revenue (note 13)	17,382	8,394	13,340
Other long-term liabilities	9,303	—	—
Deferred tax liabilities (note 7)	114,816	122,244	119,088
Long-term debt (note 10)	140,241	120,950	166,835
Convertible debentures (note 11)	58,322	56,760	—
Derivative financial instruments (note 19 b, c)	2,508	1,976	2,811
	680,672	553,236	504,891
Commitments and contingencies (note 22)			
Shareholders' equity			
Share capital (note 14)	589,208	476,918	476,918
Stock option reserve (note 12)	299	—	—
Equity component of convertible debentures (note 11)	3,841	3,841	—
Accumulated other comprehensive loss	(5,001)	(6,490)	(4,851)
Deficit	(133,167)	(130,281)	(106,496)
	455,180	343,988	365,571
	$ 1,135,852	$ 897,224	$ 870,462

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

Approved and authorized by the board of directors on March 19, 2014. *"Hon. Brian V. Tobin, Director"* *" Wayne McLeod, Director"*

NEW FLYER INDUSTRIES INC.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

December 29, 2013

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

	Share Capital	Equity Component of Convertible Debentures (note 11)	Stock Option Reserve	Accumulated Other Comprehensive Loss	Deficit	Total Shareholders' Equity
Balance, January 1, 2012 (note 2.23)	$ **476,918**	$ **—**	$ —	$ **(4,851)**	$ **(106,496)**	$ **365,571**
Net earnings	—	—	—	—	9,290	9,290
Other comprehensive loss	—	—	—	(1,639)	—	(1,639)
Dividends declared on common shares	—	—	—	—	(33,075)	(33,075)
Equity component of convertible debentures (net of tax $1,421)	—	3,841	—	—	—	3,841
Balance, December 30, 2012	**476,918**	**3,841**	—	**(6,490)**	**(130,281)**	**343,988**
Net earnings	—	—	—	—	26,761	26,761
Other comprehensive income	—	—	—	1,489	—	1,489
Dividends declared on common shares	—	—	—	—	(29,647)	(29,647)
Share based compensation	—	—	299	—	—	299
Shares issued	113,782	—	—	—	—	113,782
Share issuance costs (net of tax $554)	(1,492)	—	—	—	—	(1,492)
Balance, December 29, 2013	$ **589,208**	$ **3,841**	$ **299**	$ **(5,001)**	$ **(133,167)**	$ **455,180**

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

NEW FLYER INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

52 weeks ended December 29, 2013 and 52 weeks ended December 30, 2012

(in thousands of U.S. dollars)

	Fiscal 2013	Fiscal 2012 Restated (note 2.23)
Operating activities		
Net earnings for the period	$ 26,761	$ 9,290
Income tax expense (note 7)	7,856	723
Depreciation of plant and equipment	9,559	8,319
Amortization of intangible assets	18,442	16,007
Share based compensation	299	—
Finance costs recognized in profit or loss	14,346	15,150
Unrealized foreign exchange loss on non-current monetary items	2,146	1,403
Foreign exchange gain on cash held in foreign currency	(192)	(2,150)
Fair value adjustment to embedded derivatives	—	1,395
Loss on exercise of redemption right	—	5,530
Realized investment tax credits	9,603	504
Defined benefit expense (note 17)	2,778	4,304
Defined benefit funding (note 17)	(8,714)	(7,336)
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	82,884	53,139
Changes in non-cash working capital items (note 16)	(22,988)	(24,003)
Cash generated from operations before interest and income taxes paid	59,896	29,136
Interest paid	(10,949)	(17,073)
Income taxes paid	(18,968)	(6,540)
Net cash generated from operating activities	29,979	5,523
Financing activities		
Repayment of obligations under finance lease	(2,003)	(2,418)
Proceeds from issue of long-term debt	13,609	42,035
Share issuance	113,782	—
Costs associated with share issuance	(2,051)	—
Repayment of other long-term liabilities	(1,000)	—
Proceeds from issue of convertible debentures	—	65,000
Costs associated with convertible debentures issuance	—	(3,789)
Repayment of subordinated notes	—	(62,449)
Dividends paid	(29,292)	(34,031)
Net cash generated from financing activities	93,045	4,348
Investing activities		
Net cash used in the acquisition of NABI-Optima Holdings Inc. (note 1.3)	(75,023)	—
Acquisition of Orion aftermarket parts business (note 1.2)	(20,608)	—
Acquisition of Orion's accounts receivables (note 1.2)	(5,920)	—
Acquisition of intangible assets	(5,512)	(174)
Acquisition of property, plant and equipment	(15,439)	(10,798)
Net cash used in investing activities	(122,502)	(10,972)
Effect of foreign exchange rate on cash	192	2,150
Increase in cash	714	1,049
Cash — beginning of period	11,182	10,133
Cash — end of period	$ 11,896	$ 11,182

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

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

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 financial statements (the "Statements") were approved by the Company's board of directors (the "Board") on March 19, 2014.

1.1 Equity investment by Marcopolo

On January 23, 2013, Marcopolo S.A. ("Marcopolo") entered into an agreement with the Company to make a strategic investment of C$116.4 million to acquire 11,087,834 newly issued Shares, representing a 19.99% stake in the Company. Each Share was issued at a price of C$10.50 per Share. 4,925,530 Shares were issued to a wholly-owned Canadian subsidiary of Marcopolo on February 15, 2013 for aggregate consideration of C$51.7 million. On June 21, 2013, the Company issued the remaining 6,162,304 Shares to the Marcopolo subsidiary for proceeds of C$64.7 million.

1.2 Acquisition of Orion aftermarket parts business

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

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

The transaction costs related to this acquisition of $1.2 million were recorded as sales, general and administration costs and other operating expenses in the consolidated statements of net earnings and comprehensive income.

The goodwill acquired is largely a result of the synergies and economies of scale expected from combining the operations of NFI aftermarket parts business and the purchased Orion aftermarket parts business. This goodwill is expected to be deductible for tax purposes. The purchase price allocation of goodwill to the aftermarket operations has been finalized.

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

1.3 Acquisition of NABI

On June 21, 2013, the Company acquired 100% of the voting equity interest in NABI-Optima Holdings Inc. ("NABI") from an affiliate of Cerberus Capital Management, L.P. for cash consideration of approximately $80.0 million, virtually all for the satisfaction of affiliate debt. The purchase price was funded by the proceeds from the C$64.7 million equity investment by Marcopolo and an additional $20.0 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.

During the period between the June 21, 2013 acquisition date and December 29, 2013, NABI's operations generated revenues of approximately $186.4 million and net earnings of approximately $3.6 million, which have been recorded in these consolidated financial statements ("Statements"). The net earnings amount reflects $3.4 million of transaction costs that was recorded as sales, general and administration costs and other operating expenses.

If NABI had been acquired on December 31, 2012, the incremental consolidated pro-forma revenue and income for the 52-week period ending December 29, 2013 would have been as follows:

	Results as stated	Incremental	Pro-forma results
Revenue	$ 1,199,424	$ 231,493	$ 1,430,917
Total comprehensive income	28,250	4,096	32,346

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

These Statements were prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS"), which requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Statements are disclosed in Note 2.22.

2.2 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.

Subsidiaries

Subsidiaries are entities over which the Company has control, where control is achieved when the Company: has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. The Company holds 100% of the voting rights in, and therefore controls its subsidiaries.

The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries as follows:

- cost is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, and business acquisition related expenses are expensed as incurred;
- identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date;
- the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill; and
- if the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is re-assessed and any remaining difference is recognized directly in the consolidated statements of net earnings and comprehensive income.

Intercompany transactions between subsidiaries are eliminated on consolidation.

Joint Operations

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.

2.3 Operating segments

The Company's operating segments are organized around the markets it serves and are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The President and Chief Executive Officer has authority for resource allocation and assessment of the Company's performance and therefore acts as the CODM.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency

The Statements are presented in U.S. dollars, which is also the Company's functional currency.

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in the consolidated statements of net earnings and comprehensive income.

Monetary balances denominated in a currency other than U.S. dollars are translated at the period end rates of exchange, and the results of the operations are translated at average rates of exchange for the period. Non-monetary balances are translated at the exchange rate prevailing at the date of the transaction.

Foreign exchange gains and losses that relate to borrowings, non-current monetary items and non-current forward foreign exchange contracts are presented in the consolidated statements of net earnings and comprehensive income within “unrealized foreign exchange loss (gain) on non-current monetary items”. All other foreign exchange gains and losses are presented in the consolidated statements of net earnings and comprehensive income within “foreign exchange gain.”

References to “$” are to U.S. dollars, references to “C$” are to Canadian dollars.

2.5 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of estimated returns and discounts, and after eliminating intercompany sales. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from the sale of goods and services in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement or authorized sales order, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

In addition, when a single sale transaction requires the delivery of more than one product or service (multiple components), the revenue recognition criteria are applied to the separately identifiable components. A component is considered to be separately identifiable if the product or service delivered has stand-alone value to that customer and the fair value associated with the product or service can be measured reliably. The amount recognized as revenue for each component is the fair value of the element in relation to the fair value of the arrangement as a whole.

The Company sells extended warranty contracts that provide coverage in addition to the basic one-year coverage. Proceeds from the sale of these contracts are deferred and amortized over the extended warranty period commencing at the end of the basic warranty period. Previously, management had recognized extended warranty revenue when the bus was sold. Management has determined that the error was not material to any of the periods presented however decided to retroactively restate the Fiscal 2012 revenue and cost of sales. The retroactive correction increased both revenue and cost of goods sold during Fiscal 2012 by $493, but did not have an impact on Fiscal 2012 net earnings or ending deficit of the Company. The extended warranty liability has been historically presented as a provision for warranty costs on the statements of financial position, however since the revenues related to the sale of extended warranty contracts are deferred and amortized over the warranty period, these amounts have been restated to deferred revenue (note 13).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company also receives proceeds from the sale of extended warranties relating to major subsystems such as engines, transmissions, axles and air conditioning that are purchased for the customer from the Original Equipment Manufacturer (“OEM”). The related cost to purchase the OEM warranty contracts have been recorded as a reduction of revenue as the Company is an agent to the transaction. Previously, management had assessed the Company as having a principal relationship; however a reassessment on this matter has resulted in the conclusion that the Company is an agent in the sale of OEM extended warranties. Management has determined that the error was not material to any of the periods presented however decided to retroactively restate the Fiscal 2012 revenue and cost of sales. The retroactive correction decreased both revenue and cost of goods sold during Fiscal 2012 by $8,158, but did not have an impact on Fiscal 2012 net earnings or ending deficit of the Company. During Fiscal 2013 the Company sold $9,964 of OEM extended warranties. The proceeds were netted against the warranty costs.

In preparing the Fiscal 2012 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 Fiscal 2012.

Net earnings and total comprehensive income impact		52-weeks ended December 30, 2012
Increase in revenue	$	7,665
Increase in cost of sales		7,665
Net earnings and total comprehensive income impact	$	—

Statement of Financial Position impact		December 30, 2012
Decrease in warranty provision	$	(12,634)
Increase in deferred revenue		12,634
Impact to assets, liabilities and shareholders’ equity	$	—

2.6 Employee benefits

For defined benefit pension plans and other post-employment benefits, the net periodic pension expense is actuarially determined on an annual basis by independent actuaries using the projected unit credit method. Actuarial remeasurement is comprised of actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), and is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in accumulated other comprehensive loss and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are comprised of service costs (including current service cost, past service cost and gain or losses on curtailments and settlements), net interest expense or income and remeasurement.

The asset or liability recognized in the consolidated statements of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unvested past service costs. 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. For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan.

Payments to defined contribution plans are expensed as incurred, which is as the related employee service is rendered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Share-based compensation plans

The Company operates cash-settled and equity-settled share-based compensation plans under which it receives services from employees and non-employee members of the Board.

For the cash-settled plans (note 9), the expense is determined based on the fair value of the liability at the end of the reporting period until the awards are settled. Certain share-based compensation plans include non-market performance conditions. The Company`s accounting policy is to recognize the impact of non-market performance conditions by adjusting the number of awards that are expected to vest. At the end of each reporting period, the Company re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions on compensation expense (note 21) in the consolidated statements of net earnings and comprehensive income.

For the equity-settled plans (note 12), share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period in which the options vest. The offset to the recorded cost is to stock option reserve. Consideration received on the exercise of stock options is recorded as share capital and the related stock option reserve is transferred to share capital. Upon expiry, the recorded value is transferred to deficit. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the consolidated statements of net earnings and comprehensive income such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the stock option reserve. Where the terms and conditions of options are modified, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statements of net earnings and comprehensive income.

2.8 Cash

Cash and cash equivalents comprise cash on hand, demand deposits and investments with an original maturity at the date of purchase of three months or less.

2.9 Accounts receivables

Accounts receivables are amounts due from customers from the rendering of services or sale of goods in the ordinary course of business. Accounts receivables are classified as current assets if payment is due within one year or less. Accounts receivables are recognized initially at fair value and subsequently measured at amortized cost, less impairment, if any.

The Company maintains an allowance for doubtful accounts and sales adjustments to provide for impairment of trade receivables. The expense relating to doubtful accounts is included within “Sales, general and administration costs and other operating expenses” in the consolidated statements of net earnings and comprehensive income.

2.10 Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Property, plant and equipment

Property, plant and equipment are recorded at cost reduced by applicable investment tax credits, less accumulated depreciation. Depreciation is calculated at the following annual rates:

Building and building improvements	4% declining-balance basis
Machinery and equipment	25% declining-balance basis
Demonstrator buses	50% straight-line basis
Computer hardware and software	30% declining-balance basis
Office equipment	20% declining-balance basis

Depreciation of equipment under finance leases is based on the lesser of the equipment's useful life or the term of the finance lease.

Leases of property, plant and equipment on terms that transfer substantially all of the risks and rewards of ownership are accounted for as finance leases. All other leases of property, plant and equipment are accounted for as operating leases.

Property, plant and equipment are tested for impairment as described under "Impairment of non-financial assets" in note 2.14.

2.12 Intangible assets

Identifiable intangible assets are initially recorded at fair value. Based on management's forecasts and business plans and the going concern of the Company, the "New Flyer" trade name intangible asset (note 6) has been deemed to have an indefinite life. For purposes of impairment testing, the fair value of trade names is determined using an income approach.

Intangible assets that have a finite life are amortized using the straight-line method over the estimated useful lives of the assets as follows:

Patents and Licenses	5-12 years
Customer relationships	21 years

Identifiable intangible assets with finite lives are tested for impairment as described under "Impairment of non-financial assets" in note 2.14.

2.13 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired business at the date of acquisition. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

2.14 Impairment of non-financial assets

Non-financial assets with finite lives are tested at the end of every reporting period for possible impairment when there are events or changes in circumstances that indicate that their carrying amounts may not be recoverable. In addition, long-lived assets that are not amortized are subject to an annual impairment assessment. The carrying values of identifiable intangible assets with indefinite lives are tested annually for impairment because they are not amortized. Impairment is determined by comparing the recoverable amount of such assets with their carrying amounts. Any impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount within earnings of continuing or discontinued operations, as appropriate. The recoverable amount is the

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

higher of an asset's fair value less cost to sell or its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows or cash generating units ("CGUs"). The Company evaluates impairment losses for potential reversals, other than goodwill impairment, when events or changes in circumstances warrant such consideration.

2.15 Provisions

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses, unless the losses relate to an onerous contract. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each consolidated statements of financial position date using the current discount rate. The increase in the provision due to passage of time is recognized as interest expense.

At the time of sale, a provision for warranty claims relating to the one-year base warranty on the entire bus and a 12-year corrosion warranty on the bus structure, is recorded and charged against operations. This warranty provision is based upon management's best estimate of expected future warranty costs utilizing past claims experience. Actual warranty expenditures are charged against the provision as incurred.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

2.16 Long-term debt

Long-term debt is recognized initially at fair value, net of transaction costs incurred. Debt is subsequently stated at amortized cost with any difference between the proceeds and the amortized cost recognized in the consolidated statements of net earnings and comprehensive income over the term of the debt using the effective interest method.

Debt is classified as a current liability unless the Company has an unconditional right to defer settlement for at least 12 months after the consolidated statements of financial position date.

2.17 Financial instruments

Financial assets

Purchases and sales of financial assets are recognized on the settlement date, which is the date on which the asset is delivered to or by the Company. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or were transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets are classified in the following categories at the time of initial recognition based on the purpose for which the financial assets were acquired:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets at fair value through profit or loss

Classification

Financial assets at fair value through profit or loss are financial assets held for trading or designated as fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Assets in this category include derivative financial instruments and are classified as current assets in the consolidated statements of financial position.

Recognition and measurement

Financial assets are initially recognized, and subsequently carried, at fair value through profit and loss, with changes recognized in the consolidated statements of net earnings and comprehensive income. Transaction costs are expensed as incurred.

Loans and receivables

Classification

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the consolidated statements of financial position date, which are classified as non-current assets. Assets in this category include accounts receivables, deposits and cash and are classified as current assets in the consolidated statements of financial position.

Recognition and measurement

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

Financial liabilities

Financial liabilities primarily consist of accounts payable and accrued liabilities, derivative financial instruments, convertible debentures and long-term debt. Financial liabilities are initially measured at fair value and subsequently measured at amortized cost unless at fair value through profit or loss.

Derivative instruments

Derivatives are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at their fair value. The Company's 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 (gain) on non-current monetary items" in the consolidated statements of net earnings and comprehensive income consistent with the underlying nature and purpose of the derivative instruments.

Embedded derivatives

The Company can have embedded foreign currency derivatives in certain revenue and purchase contracts where the currency of the contract is different from the functional or local currencies of the parties involved. These derivatives are accounted for as separate instruments and are measured at fair value at each consolidated statements of financial position date using forward exchange market rates. At January 1, 2012 the Company had an embedded derivative associated with the Company's right to prepay the subordinated notes that were issued by NFI ULC and subsequently redeemed in 2012 (the "Old Subordinated Notes").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Taxation

Tax expense comprises current and deferred tax. Tax is recognized in the consolidated statements of net earnings and comprehensive income except to the extent it relates to items recognized directly in equity, in which case the related tax is recognized in equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the date of the consolidated statements of financial position.

Deferred tax is accounted for using the liability approach and is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the consolidated statements of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax is calculated based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply to the year of realization or settlement based on tax rates and laws enacted or substantively enacted at the date of the consolidated statements of financial position.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). The carrying amount of deferred tax assets is reviewed at each consolidated statements of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are generally recognized for all taxable temporary differences except to the extent that the deferred tax liability arises from: the initial recognition of goodwill; or the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). As well, deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

2.19 Investment tax credits

The Company has earned investment tax credits (“ITCs”) relating to qualified alternative fuel motor vehicles previously delivered, and also on a percentage of eligible current and capital research and development expenditures incurred in each taxation year. Investment tax credits are recognized when there is reasonable assurance that the Company will comply with the associated conditions and the grants will be received. The investment tax credits are recognized either as a reduction in cost of sales on the consolidated statements of net earnings and comprehensive income, or as a reduction in property, plant and equipment, depending on where the original costs which gave rise to the credits were recorded.

2.20 Vendor Rebates

The Company records certain consideration received from a vendor, which is probable and can be reasonably estimated, as a reduction of the cost of purchases during the period, even if the full requirements for entitlement to these rebates have not yet been met. The amount of vendor rebates recorded is based on purchases-to-date and management’s best estimate of rebate levels that will be achieved through the duration of the contract.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Interest in Joint Operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Company recognizes in relation to its interest in a joint operation:

(a) its assets, including its share of any assets held jointly;
(b) its liabilities, including its share of any liabilities incurred jointly;
(c) its revenue from the sale of its share of the output arising from the joint operation;
(d) its share of the revenue from the sale of the output by the joint operation; and
(e) its expenses, including its share of any expenses incurred jointly.

2.22 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 comprehensive income in the periods in which they become known. The assets and liabilities which require management to make significant estimates and assumptions in determining carrying values include, but are not limited to, inventories, derivative financial instruments, property, plant and equipment, intangible assets, goodwill, provision for warranty costs, accrued benefit 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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. See note 2.6 for certain assumptions made with respect to employee benefits.

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

As described in note 2.5, 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 described in note 2.5, 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 OEM as set out in IAS 18.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 focusing on the currency in which the transactions are denominated in. The functional currency of the Company is the United States dollar as it is the currency of the primary economic environment in which the Company operates. In addition, it is the competitive forces of the United States marketplace that determines the sales prices of its goods and services. Predominantly, the costs for labour, material and overhead that address the needs and support the Company's customers are incurred in United States dollars, and hence the pricing of goods and services to the customer is more greatly influenced from operations and the competitive forces in 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.

2.23 Standards recently adopted

IAS 19 (Revised 2011) Employee Benefits:

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

Net earnings and total comprehensive income impact	52-weeks ended December 30, 2012
Increase in cost of sales	$ (750)
Decrease in income taxes	282
Decrease in net earnings	(468)
Decrease in other comprehensive loss	750
Tax impact of decrease in other comprehensive loss	(282)
Impact on total comprehensive income	—
Decrease in net earnings per share (basic and diluted)	(0.01)

In preparing the Fiscal 2012 comparative information, the Company has adjusted amounts reported previously in the consolidated financial statements as a result of the retrospective application of the amendments to IAS 19, Employee Benefits. A statement of financial position as at January 1, 2012 is included as a result of the Company's retrospective application of the amendments to IAS 19, Employee Benefits.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS 13 Fair Value Measurement:

IFRS 13 establishes a single framework for fair value measurement as required by other IFRS standards and is applicable to both financial and non-financial items that are required or permitted by other standards to be measured at fair value, effective January 1, 2013. Prospective application is required. The standard does not have a significant impact on the Company's financial position or results of operations but does require additional disclosure related to fair value measurements (note 19). The standard has been applied on a prospective basis.

IAS 1 (Revised 2011) Presentation of Financial Statements:

Disclosure of other comprehensive income items between those that are recycled to profit or loss and those not recycled is required with retrospective application, effective for years beginning on or after July 1, 2012. The amended standard relates only to presentation and does not have an impact on the Company's financial position or results of operations. The amendments have been applied retroactively.

IFRS 10 Consolidated Financial Statements:

The new standard uses control as the single basis of consolidation for all entities with three elements to control: power over an investee; exposure or rights to variable returns; and the ability to affect returns. Retrospective application is required, subject to certain transitional provisions, effective January 1, 2013. The standard does not have a significant impact on the Company's financial position or results of operations.

IFRS 11 Joint Arrangements:

The new standard classifies arrangements as either joint operations or joint ventures. All interests in joint ventures should now be accounted for based on the equity method. Transitional provisions vary depending on how an interest is classified under IAS 31, effective January 1, 2013. The Company's existing joint arrangement is classified as a joint operation under the new standard with no significant change in the accounting.

IFRS 12 Disclosure of Interest in Other Entities:

IFRS 12 requires extensive disclosure relating to an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structure entities. Disclosure has been incorporated into the Company's Notes to Consolidated Financial Statements (note 2.2).

IAS 28 (as amended 2011) Investments in Associates:

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

2.24 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.

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

3. ACCOUNTS RECEIVABLE

	December 29, 2013	December 30, 2012	January 1, 2012
Trade	$ 221,314	$ 108,635	$ 111,047
Other	9,001	4,825	4,803
	$ 230,315	$ 113,460	$ 115,850

4. INVENTORIES

	December 29, 2013	December 30, 2012	January 1, 2012
Raw materials	$ 108,166	$ 59,338	$ 45,454
Work in process	64,670	62,753	46,340
Finished goods	10,502	2,621	1,697
	$ 183,338	$ 124,712	$ 93,491

	Fiscal 2013	Fiscal 2012
Cost of inventories recognized as expense and included in cost of sales	$ 1,021,425	$ 724,154
Write-down of inventory to net realizable value in cost of sales	1,682	1,124
Reversals of a previous write-down in inventory	—	(192)

5. PROPERTY, PLANT AND EQUIPMENT

	Land, building and building improvements	**Machinery and equipment**	**Computer hardware and software**	**Office equipment**	**Demonstrator buses**	**Total**
Cost	$ 15,962	$ 37,699	$ 14,780	$ 1,107	$ 3,452	$ 73,000
Accumulated depreciation	1,932	20,741	10,079	450	2,401	35,603
January 1, 2012 net book value	14,030	16,958	4,701	657	1,051	37,397
Additions (owned and leased)	538	9,781	2,350	187	—	12,856
Depreciation charge	(465)	(4,787)	(2,012)	(149)	(816)	(8,229)
December 30, 2012 net book value	14,103	21,952	5,039	695	235	42,024
Additions (owned and leased)	2,915	8,142	2,530	655	2,265	16,507
Assumed on June 21, 2013 relating to NABI acquisition	4,300	10,236	405	242	375	15,558
Depreciation charge	(488)	(6,349)	(1,915)	(172)	(333)	(9,257)
December 29, 2013 net book value	$ 20,830	$ 33,981	$ 6,059	$ 1,420	$ 2,542	$ 64,832

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

5. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Land, building and building improvements	Machinery and equipment	Computer hardware and software	Office equipment	Demonstrator buses	Total
Recorded as:						
Cost	$ 16,500	$ 47,480	$ 17,130	$ 1,294	$ 3,452	$ 85,856
Accumulated depreciation	2,397	25,528	12,091	599	3,217	43,832
December 30, 2012 net book value	14,103	21,952	5,039	695	235	42,024
Cost	23,715	65,858	20,065	2,191	6,092	117,921
Accumulated depreciation	2,885	31,877	14,006	771	3,550	53,089
December 29, 2013 net book value	$ 20,830	$ 33,981	$ 6,059	$ 1,420	$ 2,542	$ 64,832

Bank borrowings are secured on all above tangible properties and assets.

The Company leases various machinery and computer hardware and software licenses under non-cancellable finance lease agreements (note 8). During Fiscal 2013 the Company had $903 (2012: $2,063) of additions to leased machinery and computer hardware. The Company is a lessee under finance leases for machinery and computer hardware and software licenses as follows (which amounts have been included in the preceding table):

	Machinery and equipment	Computer hardware and software	Total
Cost	$ 8,624	$ 6,421	$ 15,045
Accumulated depreciation	6,928	4,534	11,462
December 30, 2012 net book value	1,696	1,887	3,583
Cost	8,864	7,084	15,948
Accumulated depreciation	7,815	5,320	13,135
December 29, 2013 net book value	$ 1,049	$ 1,764	$ 2,813

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

6. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Trade names	Patents and Licenses	Customer relationships	Total
Cost	$ 202,168	$ 154,200	$ 100,331	$ 158,700	$ 615,399
Accumulated amortization	—	—	37,256	33,782	71,038
January 1, 2012 net book value	202,168	154,200	63,075	124,918	544,361
Additions	—	—	174	—	174
Amortization charge	—	—	(8,450)	(7,557)	(16,007)
December 30, 2012 net book value	202,168	154,200	54,799	117,361	528,528
Additions	9,937	7,100	9,620	32,121	58,778
Amortization charge	—	—	(9,705)	(8,737)	(18,442)
December 29, 2013 net book value	$ 212,105	$ 161,300	$ 54,714	$ 140,745	$ 568,864

Recorded as:

	Goodwill	Trade names	Patents and Licenses	Customer relationships	Total
Cost	$ 202,168	$ 154,200	$ 100,505	$ 158,700	$ 615,573
Accumulated amortization	—	—	45,706	41,339	87,045
December 30, 2012 net book value	202,168	154,200	54,799	117,361	528,528
Cost	212,105	161,300	110,125	190,821	674,351
Accumulated amortization	—	—	55,411	50,076	105,487
December 29, 2013 net book value	$ 212,105	$ 161,300	$ 54,714	$ 140,745	$ 568,864

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use estimated cash flow projections based on financial plans approved by the Board covering a three-year period and discount rates based on weighted average cost of capital of like businesses that range between 9% and 13% per annum for the Bus Operations CGU and between 7% and 11% per annum for the Aftermarket Operations CGUs. Cash flows beyond this period are extrapolated using a steady estimated growth rate based on the long-term average annual growth rate of 3% for each industry in which the CGUs operate.

Management has determined planned gross margins based on a projected production schedule, past performance and expectations of market development. The discount rates used reflect specific risk relating to the relevant operating segments.

Impairment could occur if the cash flow projections are lower by 9.5% annually or if the average annual growth rate is decreased by more than 1.9% or if the discount rate is higher by at least 1.4%.

Based upon historical operating results, management's forecasts and business plans, the "New Flyer" and "NABI" trade names were assigned an indefinite life. The recoverable amount of the Company's trade name intangible asset is determined using a variation of the Income Approach known as the Relief from Royalty Method. The underlying concept for this methodology is that the Company owns its trade name as opposed to having a license to use it; the Company does not have to pay royalties for the use of its trade name on its own products and services. These royalties are usually expressed as a percentage of sales. The Relief from Royalty method is based on the premise that free cash flow is a more valid criterion for measuring value than "book" or accounting profits. Cash flows are based on an estimated royalty rate applied to management's projected revenue attributable to the trade name net of taxes to yield after tax cash flows. The after-tax cash flows are summarized and discounted back to their net present value at an appropriate intangible asset rate of return in order to estimate the fair value of the trade name. The estimated royalty rate of 4.0% was applied to all the Company's projected revenues based upon comparable publicly reported trade name and trademark licensing data and specific qualitative factors. The cash flows were discounted at the risk adjusted weighted average cost of capital for the Company.

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

7. DEFERRED TAXES AND INCOME TAX EXPENSE

	December 29, 2013	December 30, 2012
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	$ 43,422	$ 41,488
Deferred tax asset to be recovered within 12 months	15,476	13,477
	58,898	54,965
Deferred tax liabilities:		
Deferred tax liability to be reversed after more than 12 months	(112,531)	(119,996)
Deferred tax liability to be reversed within 12 months	(5,893)	(7,881)
	(118,424)	(127,877)
	$ (59,526)	$ (72,912)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income 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:

	December 29, 2013	December 30, 2012
As presented on statements of financial position:		
Deferred tax assets	$ 55,290	$ 49,332
Deferred tax liabilities	(114,816)	(122,244)
	$ (59,526)	$ (72,912)

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

	Fiscal 2013	Fiscal 2012
Beginning of period	$ (72,912)	$ (82,530)
Exchange differences	(1,705)	287
Tax recorded through net earnings	15,993	12,086
Tax recorded through other comprehensive loss	(940)	1,012
Benefit of loss carry forward and share issuance costs recognized against income taxes payable	(516)	(2,346)
Tax recorded through equity	554	(1,421)
End of period	$ (59,526)	$ (72,912)

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

7. 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	Goodwill and Intangibles	Other	Total
January 1, 2012	$ (791)	$ (128,619)	$ 96	$ (129,314)
Tax reversed (charged) through net earnings	340	6,077	(3,471)	2,946
Tax recorded through equity	—	—	(1,509)	(1,509)
December 30, 2012	(451)	(122,542)	(4,884)	(127,877)
Tax reversed through net earnings	237	6,002	3,214	9,453
December 29, 2013	$ (214)	$ (116,540)	$ (1,670)	$ (118,424)

Deferred tax assets	Provisions	Property Plant and Equipment	Pension	Deferred Financing Costs and Interest	Other	Total
January 1, 2012	$ 15,220	$ —	$ 3,435	$ 8,138	$ 19,991	$ 46,784
Tax recovered (charged) through net earnings	(2,971)	14,710	(1,096)	6,981	(8,484)	9,140
Tax recovered through other comprehensive loss	—	—	1,012	—	—	1,012
Tax recorded through equity	—	—	—	88	—	88
Benefit of loss carry forward and share issuance costs recognized against income taxes payable	—	—	—	(733)	(1,613)	(2,346)
Exchange differences	103	—	23	55	106	287
December 30, 2012	12,352	14,710	3,374	14,529	10,000	54,965
Tax recovered (charged) through net earnings	(1,214)	(3,557)	(2,175)	5,597	7,889	6,540
Tax recovered through other comprehensive loss	—	—	(940)	—	—	(940)
Tax recorded through equity	—	—	—	554	—	554
Benefit of loss carry forward and share issuance costs recognized against income taxes payable	—	—	—	(516)	—	(516)
Exchange differences	(390)	(465)	(173)	(459)	(218)	(1,705)
December 29, 2013	$ 10,748	$ 10,688	$ 86	$ 19,705	$ 17,671	$ 58,898

Deferred income tax assets are recognized for income tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company has an income tax loss carry-forward of $331 which will more likely than not be applied against future taxable income and therefore a related deferred tax asset has been recorded. The right to claim these losses expires as follows:

2014 to 2019 (includes U.S. federal tax losses that are restricted in application to $55 per year)	$ 331

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

7. DEFERRED TAXES AND INCOME TAX EXPENSE (Continued)

As at December 29, 2013, the Company has $13,659 (2012:$23,262) of unused ITCs available to be applied against future income taxes payable; as such a long-term receivable has been recorded on the consolidated statements of financial position. Management anticipates that the unused ITCs will be utilized over the next two years.

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

	Fiscal 2013	Fiscal 2012
Earnings before income tax expense	$ 34,617	$ 10,013
Tax calculated using a 35% U.S. tax rate	12,116	3,505
Tax effect of:		
Withholding and other taxes	819	898
Non-deductible expenses (non-taxable income)	(1,693)	1,376
Revision of tax estimates	657	(883)
Foreign exchange impact	(3,083)	(898)
State taxes	650	(626)
Rate differential on income taxed at other than U.S. statutory rate	(1,507)	(2,870)
Other	(103)	221
Income tax expense for the period	$ 7,856	$ 723

	Fiscal 2013	Fiscal 2012
Current income taxes for the period	$ 23,849	$ 12,809
Deferred income taxes recovered for the period	(15,993)	(12,086)
Income tax expense for the period	$ 7,856	$ 723

8. OBLIGATIONS UNDER FINANCE LEASES

The Company has entered into finance leases for equipment, computer hardware and software licenses, with an imputed weighted average interest rate of 5.27% based on individual lease rates ranging between 3.39% and 8.63%, expiring between 2014 and 2018. The following is a schedule of future minimum lease payments, together with the balance of the obligation under the finance leases as at December 29, 2013:

2014	$ 1,465
2015	779
2016	636
2017	332
2018	88
	3,300
Less: Amounts representing interest	247
	3,053
Less: Current portion	1,283
	$ 1,770

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

9. DEFERRED COMPENSATION OBLIGATION

	December 29, 2013	December 30, 2012
Performance unit plan (officers and senior management)	$ 290	$ 624
Restricted share unit plan (officers and senior management)	1,300	475
Deferred share unit plan (non-employee board of directors)	331	134
	1,921	1,233
Less: current portion	258	—
	$ 1,663	$ 1,233

The Restricted Share Unit Plan (the "RSU Plan") provides for grants of restricted share units ("RSUs") to officers and senior managers of the Company. An RSU is the right to receive a cash payment based on the fair market value of a Share. RSUs granted in Fiscal 2013 will generally vest at the end of the third fiscal year following the date of grant. The Human Resources, Compensation and Corporate Governance Committee approved a special off-cycle grant of RSUs in Fiscal 2013. These RSUs will vest over two years, half on each of the first and second anniversaries of the grant date. Following the time of vesting, participants will be entitled to receive cash redemption payments equal to the fair market value of a Share for every vested unit held. RSUs shall also immediately vest upon the closing of a transaction resulting in certain change of control events and upon certain terminations of employment. RSUs granted in Fiscal 2013 were determined based on the weighted average trading price of a Share for the last five trading days of 2012 and the desired compensation value.

Performance share units ("PSUs") granted under the performance share unit plan ("PSU Plan") generally vest at the end of the third fiscal year following the date of grant in an amount equal to a percentage of between approximately 19% and 256% of the units in the participant's account, depending on the position and subject to and based on the Company achieving certain specified Adjusted EBITDA targets. The number of PSUs granted in 2013 were determined based on the weighted average traded price of a Share for the last five trading days of 2012 and the desired target compensation value.

The purposes of the PSU Plan and the RSU Plan (collectively, the "Long-term Incentive Plans") are to attract, retain, motivate and reward officers and senior managers of the Company by making a significant portion of their long term incentive compensation dependent on the Company's financial performance. One of the key advantages of the Long-term Incentive Plans is that they will further align the interests of management and investors given that the award grant and redemption values will be determined based on the fair market value of the Shares and on the Company's long-term financial performance. Under the terms of the Long-term Incentive Plans, the Human Resources, Compensation and Corporate Governance Committee may grant eligible participants each year unit grants which give the holders thereof the right to receive, upon vesting and redemption of units, a cash payment equal to the fair market value of a Share. When dividends are paid on a Share, additional units equivalent to the amount of the dividends multiplied by the number of units held (and determined based on the then fair market value of the Shares) will be credited to the participant's account.

As well, the Board adopted NFI's Deferred Share Unit Plan for Non-Employee Directors effective January 1, 2012. Pursuant to the plan, non-management directors may elect, once each calendar year to receive all or a portion of their annual retainer and meeting fees in the form of deferred share units ("DSUs") instead of cash. A DSU is the right to receive a cash payment based on the value of a Share credited by means of a bookkeeping entry to an account in the name of the non-employee director. DSUs are credited to the director's account on the last day of each calendar quarter, the number of which is determined by dividing the amount of the applicable portion of the director's elected amount by the fair market value of a Share on that date. When dividends are paid on a Share, additional DSUs equivalent to the amount of the dividend multiplied by the number of DSUs held (and determined based on the then fair market value of the Shares) will be credited to the director's account. DSUs are fully vested on issue. At the end of the director's tenure as a member of the Board, he or she will be entitled to receive a cash redemption payment equal to the fair market value of a Share multiplied by the number of DSUs held.

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

9. DEFERRED COMPENSATION OBLIGATION (Continued)

	PSUs	RSUs	DSUs	Total
Units outstanding at January 1, 2012	792,929	—	—	792,929
Units granted	358,842	119,614	14,650	493,106
Distribution units granted	122,450	13,410	519	136,379
Units expired	(572,477)	—	—	(572,477)
Units outstanding at December 30, 2012	701,744	133,024	15,169	849,937
Units granted	148,212	157,251	17,094	322,557
Distribution units granted	49,200	11,951	1,239	62,390
Units expired	(320,246)	—	—	(320,246)
Vested and reclassed to accounts payable	—	(26,111)	—	(26,111)
Units outstanding at December 29, 2013	578,910	276,115	33,502	888,527
Vested units	—	—	(33,502)	(33,502)
Unvested units	578,910	276,115	—	855,025

10. LONG-TERM DEBT

	Final Maturity	Face Value	Unamortized Transaction Costs	**Net Book Value December 29, 2013**	Net Book Value December 30, 2012
Term Credit Facility	April 2017	$ 142,000	$ 1,759	$ 140,241	$ 120,950
Revolving Credit Facility (“Revolver”)	April 2017	35,000	—	35,000	40,035
		177,000	1,759	175,241	160,985
Less: current portion of long-term debt		35,000	—	35,000	40,035
		$ 142,000	$ 1,759	$ 140,241	$ 120,950

On June 21, 2013, concurrent with the acquisition of NABI, the Company entered into a fourth amended and restated credit agreement (the “Credit Facility”) which extended its senior secured credit facility to April 24, 2017 while increasing the total amount of the Credit Facility to $257 million, an increase of $45 million. The borrowing limit of the Revolver was increased to $115 million from $90 million to support working capital fluctuations. The Revolver includes a $55.0 million letter of credit sub-facility, of which $22.7 million of outstanding letters of credit were drawn at December 29, 2013. The borrowing limit of the term facility (the “Term Credit Facility”) was increased to $142 million from $122 million. In addition, certain financial covenants and definitions were adjusted to reflect the acquisition of NABI. 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.

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

11. 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.

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 million at Maturity Date at an effective interest rate over the five-year term of the Debentures.

	Debenture liability component	Equity component of Debenture	**Net Book Value December 29, 2013**	Net Book Value December 30, 2012
Proceeds from issue of Debentures	$ 59,412	$ 5,588	$ 65,000	$ 65,000
Debenture issuance costs	(3,463)	(326)	(3,789)	(3,789)
Net proceeds	55,949	5,262	61,211	61,211
Accretion in carrying value of debenture liability	2,373	—	2,373	811
Deferred taxes	—	(1,421)	(1,421)	(1,421)
Net book value	$ 58,322	$ 3,841	$ 62,163	$ 60,601

12. SHARE-BASED COMPENSATION

The Board adopted a Share Option Plan (the "Option Plan") for NFI on March 21, 2013, under which employees of NFI and certain of its affiliates ("participants") may receive grants of share options. Directors who are not employed with NFI are not eligible to participate in the Option Plan. A maximum of 3,600,000 Shares are available for issuance under the Option Plan. Also on March 21, 2013, the Board granted an aggregate of 490,356 Share options (the "Options") to eleven executives, effective March 26, 2013. However, in accordance with the policies of the TSX, NFI was required to submit the Option Plan for approval by NFI's shareholders. The Option Plan and the ratification of the grant of the Options were approved by NFI's shareholders at the annual general meeting on May 9, 2013. The Options will expire on March 26, 2021. All of the Options have been granted to insiders. The Options will become vested as to one-quarter on the first anniversary of March 26, 2013 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 March 26, 2013, at which time each Option will expire and be forfeited. No new Options may be granted under the Option Plan after March 21, 2023. All 490,356 originally granted Options are still outstanding at December 29, 2013. None of these Options have been vested, exercised or forfeited.

12. SHARE-BASED COMPENSATION (Continued)

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

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

13. DEFERRED REVENUE

	December 29, 2013	December 30, 2012	January 1, 2012
Extended warranties (note 24)	$ 18,074	$ 12,634	$ 15,656
Bus progress payments	56,922	19,190	1,897
	74,996	31,824	17,553
Less: current portion of deferred revenue	(57,614)	(23,430)	(4,213)
	$ 17,382	$ 8,394	$ 13,340

Deferred revenue is comprised of progress payments that have not yet qualified for recognition as revenue under the Company's revenue recognition policies and also deferred revenue from the sale of extended warranty contracts which are amortized over the extended warranty period commencing at the end of the one-year basic warranty period.

14. SHARE CAPITAL

Authorized			
Unlimited	Common Shares		
Issued		**December 29, 2013**	December 30, 2012
55,466,904	Common Shares (December 30, 2012: 44,379,070)	$ 589,208	$ 476,918

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

Shares	Number (000s)	Net Book Value
Balance - December 30, 2012	44,379	$ 476,918
Shares issued to Marcopolo on February 15, 2013	4,926	51,404
Shares issued to Marcopolo on June 21, 2013	6,162	62,378
Less: Share issuance costs (net of tax of $560)	—	(1,492)
Balance - December 29, 2013	55,467	$ 589,208

The dividends declared in Fiscal 2013 and Fiscal 2012 were $29,647 ($0.57 per Share) and $33,075 ($0.75 per Share) respectively. Dividends of $4,871 ($0.09 per Share) were proposed or declared after December 29, 2013 but prior to the Statements being authorized for issue. The Statements do not reflect this dividend payable.

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

15. EARNINGS PER SHARE

		Fiscal 2013		Fiscal 2012 (restated note 2.23)
Net earnings attributable to equity holders	$	26,761	$	9,290
Add: Interest expense on convertible debentures, net of tax		4,106		2,056
Net earnings used to determine diluted earnings per Share	$	30,867	$	11,346
Weighted average number of Shares in issue		51,929,357		44,379,070
Add: assumed conversion of stock options		490,356		—
Add: assumed conversion of Debentures		6,500,000		7,910,000
Weighted average number of Shares for calculation of diluted earnings per Share		58,919,713		52,289,070
Net earnings per Share (basic)	$	0.52	$	0.21
Net earnings per Share (diluted)	$	0.51	$	0.21

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 Shares issuable pursuant to the conversion of the Debentures are considered anti-dilutive and are disregarded in calculating diluted earnings per Share.

16. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)		**Fiscal 2013**		Fiscal 2012
Accounts receivable	$	(63,339)	$	2,390
Inventories		15,907		(31,221)
Prepaid expenses and deposits		(2,146)		353
Accounts payable and accrued liabilities		(2,756)		(1,379)
Income taxes payable		(6,252)		1,792
Deferred revenue		45,012		17,293
Provisions		(9,414)		(12,702)
Other		—		(529)
	$	(22,988)	$	(24,003)

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

17. ACCRUED BENEFIT LIABILITY

Defined benefit plan

The Company's subsidiary, NFI ULC, has a defined benefit plan which covers unionized employees in Canada. An actuarial valuation was last performed as at December 31, 2012. The next compulsory actuarial valuation as of December 31, 2013 will be completed in 2014.

Information in respect of the Company's defined benefit plan is as follows:

	December 29, 2013	December 30, 2012
Change in plan assets		
Plan assets at fair value — beginning of period	$ 41,823	$ 33,992
Interest income	1,919	1,870
Remeasurement gain - return on plan assets (excluding amounts in net interest expense)	2,296	1,081
Administrative expenses	(141)	(96)
Employer's contributions	8,714	7,336
Benefits paid	(4,229)	(3,105)
Foreign exchange	(3,213)	745
Plan assets at fair value — end of period	47,169	41,823
Change in defined benefit obligation		
Accrued benefit obligation — beginning of period	50,796	43,128
Current service cost	2,359	2,178
Interest cost	2,117	2,248
Benefits paid	(4,229)	(3,105)
Foreign exchange	(3,514)	853
Past service costs	—	1,762
Actuarial losses (gains) arising from changes in demographic assumptions	1,394	(1,647)
Actuarial (gains) losses arising from changes in financial assumptions	(1,812)	5,694
Actuarial losses (gains) arising from experience adjustments assumptions	286	(315)
Defined benefit obligation — end of period	47,397	50,796
Accrued benefit liability - present value of unfunded obligations	$ (228)	$ (8,973)

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligation and net pension plan expenses are as follows:

	Fiscal 2013	Fiscal 2012
Discount rate	4.75%	4.50%
Mortality tables	90% of UP94 Generational with Scale AA	UP94 Generational Scale AA

If the discount rate decreased by 1% from the 4.75% discount rate used at December 29, 2013, the defined benefit obligation would increase by approximately 18.6%. Similarly, if the discount rate increased 1% then the obligation would decrease approximately 14.7%.

If the life expectancy increased by one year from 90% of the UP94 mortality tables used at December 29, 2013, the defined benefit obligation would increase by approximately 2.5%. Similarly, if the life expectancy decreased by one year from 90% of the UP94 mortality tables then the obligation would decrease approximately 2.5%.

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

17. ACCRUED BENEFIT LIABILITY (Continued)

The defined benefit plan typically exposes the Company to actuarial risks such as: investment risk, interest rate risk and longevity risk.

Investment risk

The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan assets is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity securities and debt instruments. Due to the long-term nature of the plan liabilities, the pension committee considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities to leverage the return generated by the fund.

Interest rate risk

A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.

Longevity risk

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

The actual return on the plan assets for Fiscal 2013 was $4,215 (Fiscal 2012 $2,951).

The Company's defined benefit plan is a fixed benefit plan and, as a result, the rate of compensation increases does not have any impact on the actuarially determined accrued benefit liability. Expected contributions to the defined benefit plan for the 52-week period ending December 28, 2014 are $5,000.

The Company's defined benefit pension plan expense, included in cost of sales is as follows:

		Fiscal 2013		Fiscal 2012
Current service costs	$	2,359	$	2,178
Past service costs		—		1,762
Net interest expense		198		378
Administrative expenses		141		96
Foreign exchange		80		(110)
Components of defined benefit costs recognized in net earnings		2,778		4,304

The net actuarial (gain) losses on defined benefit pension recognized in other comprehensive income is as follows:

		Fiscal 2013		Fiscal 2012
Return on plan assets (excluding amounts included in net interest expense)	$	(2,296)	$	(1,081)
Actuarial losses (gains)arising from changes in demographic assumptions		1,394		(1,647)
Actuarial (gains) losses arising from changes in financial assumptions		(1,812)		5,694
Actuarial losses (gains) arising from experience adjustments assumptions		286		(315)
Net actuarial (gain) losses on defined benefit pension recognized in other comprehensive income	$	(2,428)	$	2,651

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

17. ACCRUED BENEFIT LIABILITY (Continued)

An analysis of the assets of the plan by investment category is provided as follows:

	December 29, 2013	December 30, 2012
Asset category		
Canadian equities	21.1%	20.0%
Foreign equities	31.9%	29.9%
Bonds	47.0%	50.1%
	100.0%	100.0%

18. EMPLOYEE BENEFITS

Defined contribution pension plans

In the United States, the Company maintains two savings retirement plans (401(k) plans). In Canada, the Company maintains a defined contribution plan for salaried employees. The net pension expense for the Company's defined contribution plans is as follows:

	Fiscal 2013	Fiscal 2012
Defined contribution pension expense	$ 2,229	$ 1,958

Cash payments contributed by the Company during Fiscal 2013 for its defined benefit and defined contribution pension plans amounted to $10,943 (2012: $9,294).

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Financial Instruments

The Company has made the following classifications:

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

(b) 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.

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

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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.

Derivative financial instruments – The fair value of derivative instruments generally reflects the estimated amounts that the Company would receive to sell favourable contracts, (i.e., taking into consideration the counterparty credit risk), or pay to transfer unfavourable contracts, (i.e., taking into consideration the Company's credit risk) at the reporting dates. The fair value measurement of the Company's foreign exchange forward contracts is classified as Level 2 because the discounted cash flows use readily available market data inputs which are observable and reliable such as interest rates, forward market rates and credit spreads. The Company's interest rate swap is negotiated directly between the Company and its counterparty and does not trade in an active market. All significant inputs, including benchmark interest rates and counterparty credit spreads, are observable and therefore the swap has been classified as Level 2.

Financial instruments whose carrying value approximates fair value – The carrying value of accounts receivable, deposits and accounts payable and accrued liabilities approximates their fair value due to the short-term nature of these instruments. The carrying value of the Term Credit Facility approximates fair value primarily because the interest rate is variable. The carrying value of the other long-term liabilities was calculated using discounted future payments which approximates fair value.

Convertible debentures - The fair values for disclosure purposes have been estimated using public market data inputs such as the market price of the convertible debentures.

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.

	December 29, 2013		
	Fair value level	Carrying amount	Fair value
Financial liabilities recorded at fair value			
Derivative financial instrument liabilities			
Foreign exchange forward contracts	Level 2	$ 740	$ 740
Interest rate swap	Level 2	2,508	2,508
Financial liabilities recorded at amortized cost			
Convertible debentures (including equity conversion option)	Level 2	$ 62,163	$ 71,012

	December 30, 2012		
	Fair value level	Carrying amount	Fair value
Financial liabilities recorded at fair value			
Derivative financial instrument liabilities			
Foreign exchange forward contracts	Level 2	$ 14	$ 14
Interest rate swap	Level 2	1,976	1,976
Financial liabilities recorded at amortized cost			
Convertible debentures (including equity conversion option)	Level 2	$ 60,601	$ 67,275

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) Risk Management

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objective of the Company's risk management process is to ensure that risks are properly identified and that the capital base is adequate in relation to these risks. The principal financial risks to which the Company is exposed are described below.

Market risk (interest rate risk and foreign currency risk)

Market risk incorporates a range of risks. Movements in risk factors, such as interest rate risk and foreign currency risk, affect the fair values of financial assets and liabilities. The Company uses derivative financial instruments including interest rate swaps, foreign exchange options and forward foreign exchange contracts to manage its risks associated with potentially adverse changes in interest rates and foreign exchange rates. 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.

The Company does not hold financial instruments for speculative or trading purposes. The Company has elected not to apply hedge accounting to its derivative financial instruments.

Interest rate risk

NFI's borrowings under the Term Credit Facility are at variable rates of interest and expose the Company to interest rate risk. The Company attempts to mitigate this risk through interest rate swaps that could become materially more expensive if interest rates increase or become more volatile. If the cost of mitigating interest rates increases, the Company's debt service obligations on its variable rate indebtedness would increase even though the amount borrowed remained the same, and the Company's net earnings and cash available for servicing its other indebtedness would decrease.

In connection with the Credit Facility, the Company has rolled over the existing interest rate swap designed to hedge floating rate exposure for the term of the Credit Facility on $142,000 of drawn term loan. The new interest rate swap fixes the interest rate at 1.46% plus the applicable interest margin until April 2017. In comparison, the interest rate swap in place prior to the closing of the Credit Facility fixed the interest rate at 1.90% plus the applicable interest margin until April 2014. The fair value of the interest rate swap liability at December 29, 2013 is $2,508 (December 30, 2012: $1,976) and the change in fair value has been recorded as finance costs for the reported period. The related liability has been recorded on the consolidated statements of financial position as a derivative financial instruments liability.

The interest rate swap is subject to interest rate risk. As an illustration, if interest rates at the consolidated statements of financial position date had been 100 basis points lower, with all other variables held constant, net earnings and total comprehensive income for Fiscal 2013 would have been higher by $2,869 (2012: $712), arising mainly as a result of the related fair value adjustment recorded due to lower interest rate. If interest rates had been 100 basis points higher, with all other variables held constant, net earnings and total comprehensive income for Fiscal 2013 would have been lower by $2,977 (2012: $669), arising mainly as a result of the related fair value adjustment recorded due to higher interest rate.

Foreign currency risk

The United States dollar is the Company's functional currency. Fluctuations in the exchange rate between the United States dollar and Canadian dollar will affect the Company's reported results. However, the impact of changes in foreign exchange rates on the

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Company's reported results differ over time depending on whether the Company is generating a net cash inflow or outflow of Canadian dollars. This is largely dependent on the Company's revenue mix by currency as operating costs denominated in Canadian dollars have been relatively stable. During Fiscal 2013, the Company generated a net inflow of Canadian dollars. As a matter of policy, the Company enters into foreign exchange forward contracts to protect the expected net Canadian dollar exposure from exchange fluctuation.

During Fiscal 2013, the Company recorded realized foreign exchange loss of $118 (2012: $2,812 gain). This was comprised of a $900 loss on settlement of foreign exchange contracts and a $782 foreign currency gain on translation of Canadian dollar denominated operations and dividends.

At December 29, 2013, the Company had $35.5 million foreign exchange forward contracts to buy Canadian dollars that expire between January and May 2014. The related liability of $740 (2012: $14) is recorded on the consolidated statements of financial position as a current derivative financial instruments liability and the corresponding change in the fair value of the foreign exchange forward contracts has been recorded in the consolidated statements of net earnings and comprehensive income.

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk, primarily Canadian dollar balances. As an illustration, at December 29, 2013, if the Canadian dollar had weakened 10 percent against the U.S. dollar, with all other variables held constant, net earnings for Fiscal 2013 would have been higher by $661 (2012: $397). Conversely, if the Canadian dollar had strengthened 10 percent against the U.S. dollar with all other variables held constant, net earnings would have been lower by $808 for Fiscal 2013 (2012: $485). The impact of fluctuations in the Canadian dollar in relation to the U.S. dollar has been significantly reduced as a result of the redemption of all of the outstanding Canadian denominated Old Subordinated Notes.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. Financial liabilities consist of accounts payable and accrued liabilities, obligations under finance leases, convertible debentures, long-term debt and derivative financial instruments. Accounts payable and accrued liabilities are paid in the normal course of business and except under certain exceptions, no later than three months of being incurred.

The following table outlines the Company's maturity analysis of the undiscounted cash flows of certain non-current financial liabilities and leases as at December 29, 2013:

US dollars in thousands	Total	2014	2015	2016	2017	2018	Post 2018
Senior term loan	$ 158,250	$ 5,000	$ 5,000	$ 5,000	$ 143,250	$ —	$ —
Convertible debentures	79,217	4,062	4,062	4,062	67,031	—	—
Other long-term liabilities	10,250	3,000	3,000	2,250	1,000	1,000	—
Finance leases	3,300	1,465	779	636	332	88	—
Accrued benefit liability	5,000	5,000	—	—	—	—	—
Operating leases	48,299	5,722	4,939	5,159	5,184	4,605	22,690
	$ 304,316	$ 24,249	$ 17,780	$ 17,107	$ 216,797	$ 5,693	$ 22,690

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 December 29, 2013, the Company had a cash balance of $11,896 (December 30, 2012: $11,182) and the $115,000 Revolver. As at December 29, 2013, there was $35,000 of direct borrowings (December 30, 2012: $40,035) and $22,681 of outstanding letters of credit (December 30, 2012: $14,207) under the Revolver.

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

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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.

Credit risk

Financial instruments which potentially subject the Company to credit risk and concentrations of credit risk consist principally of cash, accounts receivable and derivative financial instruments. 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 come from the U.S. Federal Transit Administration, while the remaining 20% comes from state and municipal sources. The maximum exposure to the risk of credit for accounts receivable 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.

During Fiscal 2013, the Company recorded a bad debt expense of $136 as compared to $26 bad debt expense in Fiscal 2012.

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 consolidated statements of net earnings and 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 consolidated statements of net earnings and comprehensive income.

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

	December 29, 2013	December 30, 2012
Current, including holdbacks	$ 213,101	$ 104,759
Past due amounts but not impaired		
1 – 60 days	16,370	6,251
Greater than 60 days	1,270	2,525
Less: Allowance for doubtful accounts	(426)	(75)
Total accounts receivables, net	$ 230,315	$ 113,460

As at December 29, 2013, there was no amount that would otherwise be past due or impaired whose terms have been renegotiated.

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

(d) Capital management

The Company's objectives in managing capital are to deploy capital to provide an appropriate return to shareholders and to maintain a capital structure that provides the flexibility to take advantage of growth and development opportunities, maintain existing assets, meet financial obligations and enhance the value of the Shares. The capital structure of the

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

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Company consists of cash, convertible debentures, long-term debt, other long-term liabilities and shareholders' equity. The Company manages capital to ensure an appropriate balance between debt and equity.

In order to maintain or adjust its capital structure, the Company may issue additional Shares, borrow additional funds or refinance debt at different terms and conditions.

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. Per the Credit Facility the Debentures are treated as equity for purposes of calculating the total leverage ratio. At December 29, 2013, the Company is in compliance with the new and revised ratios. The results of the financial covenants tests as of such date are as follows:

	December 29, 2013	December 30, 2012
Total Leverage Ratio (must be less than 3.25)	1.67	2.52
Interest Coverage Ratio (must be greater than 3.00)	9.21	4.23

Compliance with financial covenants is reported quarterly to the Board. 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 or when strategic capital transactions arise.

20. 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 includes NFI and NABI Bus and derives its revenue from the manufacture of heavy-duty transit buses for public transportation. The Aftermarket Operations segment includes NFI and NABI Parts and derives its revenue from the provision of service parts and support related to heavy-duty transit 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, finance costs, fair value adjustment to embedded derivatives and loss on exercise of redemption right. Corporate overhead costs are allocated fully to the Bus Operations segment.

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

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

20. SEGMENT INFORMATION (Continued)

Segment information about profits and assets is as follows:

	Fiscal 2013			
	Bus Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 984,359	$ 215,065	$ —	$ 1,199,424
Operating costs and expenses	957,127	191,188	—	1,148,315
Earnings (loss) before income tax expense	27,232	23,877	(16,492)	34,617
Total assets	555,955	202,765	377,132	1,135,852
Addition of capital expenditures	13,389	2,050	—	15,439
Addition of goodwill and intangibles assets	8,018	50,760	—	58,778
Goodwill	149,400	62,705	—	212,105

	Fiscal 2012 (restated)			
	Bus Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 746,200	$ 119,050	$ —	$ 865,250
Operating costs and expenses	731,923	99,836	—	831,759
Earnings (loss) before income tax expense	14,277	19,214	(23,478)	10,013
Total assets	411,683	98,667	386,874	897,224
98Addition of capital expenditures	10,726	72	—	10,798
Addition of goodwill and intangibles assets	—	174	—	174
Goodwill	148,483	53,685	—	202,168

The allocation of revenue to geographic areas is as follows:

	Fiscal 2013	Fiscal 2012 (restated)
United States	$ 1,011,912	$ 705,689
Canada	187,512	159,561
Total	$ 1,199,424	$ 865,250

The allocation of property, plant and equipment to geographic areas is as follows:

	December 29, 2013	December 30, 2012
United States	$ 30,696	$ 9,696
Canada	34,136	32,328
Total	$ 64,832	$ 42,024

The Company had revenue from certain customers that was individually greater than 10% of the Company's revenue. Details with respect to consolidated revenue from these customers that are greater than 10% of the Company's revenue are as follows:

	Fiscal 2013	Fiscal 2012
Customer A	$ —	$ 195,251

The revenue from this customer principally consists of revenue from the Bus Operations segment.

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

21. RELATED PARTY TRANSACTIONS

Included in accounts payable and accrued liabilities were $153 (2012: $835) relating to directors fees paid subsequent to December 29, 2013.

Compensation of key management

Key management includes the roles of the Board, President and CEO, the CFO, executive vice presidents and vice presidents. The compensation expense for key management for employee services is shown below:

	Fiscal 2013	Fiscal 2012
Salaries and short term employee benefits	$ 8,082	$ 4,560
Post-employment benefits	274	272
Share-based payment benefits	1,083	1,016
	$ 9,439	$ 5,848

Share-based payment benefits shown above represent the PSU, RSU, DSU and stock option expense that was recorded in the period.

22. COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitments

The Company has leased real property with aggregate minimum lease payments of $48,299 (2012: $25,759) payable as follows:

2014	$ 5,722
2015	4,939
2016	5,159
2017	5,184
2018	4,605
Thereafter	22,690
	$ 48,299

(b) In the normal course of business, the Company receives notice of potential legal proceedings or is named as a defendant in legal proceedings, including those that may be related to product liability, wrongful dismissal or personal injury. Many claims are covered by the Company's insurance policies and management does not expect any of the current claims to have a material adverse effect on the Company’s financial position, results of operations or cash flows.

(c) 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 December 29, 2013 range from January 2014 to October 2016.

At December 29, 2013, outstanding surety bonds guaranteed by the Company totaled $147,202 (2012: $52,030). The Company has not recorded any liability under these guarantees, as management believes that no material events of default exist under any contracts with customers.

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

22. COMMITMENTS AND CONTINGENCIES (Continued)

(d) The Company has a letter of credit sub-facility of $55,000 as part of the $115,000 Revolver. As December 29, 2013, letters of credit totaling $22,681 (December 30, 2012: $14,207) remain outstanding under the letter of credit facility as security for the following contractual obligations of the Company:

	December 29, 2013	December 30, 2012
Collateral to secure operating facility leases	$ 290	$ 284
Collateral to secure surety facilities	—	3,000
Customer performance guarantees	19,728	9,018
Collateral in support of self-insured workers compensation and general liability obligations	2,663	1,905

As at December 29, 2013, management believes that the Company was 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.

23. GUARANTEES

The Company indemnifies its directors and officers against claims and damages that may be incurred in the performance of their services to the Company. Liability insurance has been purchased with respect to the Company's directors and officers.

24. PROVISIONS 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 extended warranty liability has been historically presented as a provision for warranty costs on the statements of financial position, however since the revenues related to the sale of extended warranty contracts are deferred and amortized over the warranty period, these amounts have been restated to deferred revenue (note 13). The correction has been retrospectively applied. Management has determined that the error was not material to any of the periods presented. The correction of this immaterial error did not have an impact on Fiscal 2012 net earnings or ending deficit of the Company.

The movements in the provision for the base warranty costs during the periods are as follows:

	Previously reported	Restated extended warranty (note 13)	**Total (restated)**
January 1, 2012	$ 32,808	$ (15,656)	$ 17,152
Additions	16,319	—	16,319
Amounts used/realized	(29,908)	3,022	(26,886)
Unwinding of discount and effect of changes in the discount rate	53	—	53
Exchange differences	834	—	834
December 30, 2012	$ 20,106	$ (12,634)	$ 7,472
Additions	29,600	—	29,600
Assumed on June 21, 2013 relating to NABI acquisition	15,410	—	15,410
Amounts used/realized	(26,997)	642	(26,355)
Unwinding of discount and effect of changes in the discount rate	(4)	—	(4)
Exchange differences	(21)	—	(21)
December 29, 2013	$ 38,094	$ (11,992)	$ 26,102

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

25. SUPPLEMENTARY EXPENSE INFORMATION

	Fiscal 2013	Fiscal 2012
Employee benefit expense	$ 169,025	$ 143,758
Depreciation of plant and equipment	9,559	8,319
Amortization of intangible assets	18,442	16,007

The expenses listed above are included in cost of sales and sales, general and administration costs and other operating expenses.

26. SUBSEQUENT EVENTS

Effective December 30, 2013 (the "2014 grant date"), the Board approved grants of an aggregate of 612,050 Options to thirteen executives. The Options will expire on December 30, 2021. All of the Options have been granted to insiders. The Options will become vested as to one-quarter on the first anniversary of the 2014 grant date and an additional one-quarter on the second, third and fourth anniversary of the 2014 grant date.

The fair value of the Options granted on December 31, 2013 were measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values of the share-based payment plans granted this year are the following:

- Fair value at 2014 grant date C$1.44
- Share price C$10.57
- Exercise price C$10.57
- Expected volatility (weighted average volatility) 27.9%
- Option life (expected weighted average life) 5.5 years
- Expected dividends 5.53%
- Risk-free interest rate (based on government bonds) 1.59% to 2.03%

Also, effective December 30, 2013 the Board granted and approved 83,273 RSUs and 166,546 PSUs to executives.