May 9, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS ENDED APRIL 1, 2012

Information in this Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of NFI (as defined below) is supplemental to, and should be read in conjunction with, NFI's interim condensed consolidated financial statements (including notes) (the "Financial Statements") for the 13-week period ended April 1, 2012 ("2012 Q1"). This MD&A contains forward-looking statements, which are subject to a variety of factors that could cause actual results to differ materially from those contemplated by the forward-looking statements. See "Forward-looking Statements". Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the factors described in the public filings of NFI and New Flyer Industries Canada ULC ("NFI ULC") 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

New Flyer Industries Inc. ("NFI"), an Ontario corporation, is the issuer of common shares ("Shares") and NFI ULC, an Alberta unlimited liability corporation, is the issuer of C$55.30 principal amount of 14% Subordinated Notes ("Subordinated Notes"), that, together with one Share form an income deposit security of the Issuer ("IDS"). As of April 1, 2012, 44,379,070 Shares were outstanding, 540,535 of which were represented by IDSs. Each IDS represents one Share and C$55.30 principal amount of Subordinated Notes. Unless otherwise stated or the context otherwise requires, references to the "Issuer" refer, collectively, to NFI and NFI ULC. References in this MD&A to "New Flyer" or the "Company" are to New Flyer Industries Inc. and its consolidated subsidiaries. References in this MD&A to "management" are to management of the Company and the Issuer.

The Shares are traded on the Toronto Stock Exchange ("TSX") under the symbol NFI and the IDSs are traded on the TSX under the symbol NFI.UN. Additional information about the Issuer and the Company, including the Issuer's annual information form is available on SEDAR at www.sedar.com.

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

Forward-looking Statements

Certain statements in this MD&A are "forward-looking statements", which reflect the expectations of management regarding the Issuer's and the Company's future growth, results of operations, performance and business prospects and opportunities. The words "believes", "anticipates", "plans", "expects", "intends", "projects", "estimates" and similar expressions are intended to identify forward-looking statements. These forward-looking statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this MD&A. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not or the times at or by which such performance or results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements. Such differences may be caused by factors which include, but are not limited to, competition in the heavy-duty transit bus industry, availability of funding to the Company's customers to purchase buses and to exercise options and to purchase parts or services at current levels or at all, aggressive competition and reduced pricing in the industry, material losses and costs may be incurred as a result of product warranty issues, material losses and costs may be incurred as a result of product liability claims, changes in Canadian or United States tax legislation, the Company's success depends on a limited number of key executives who the Company may not be able to adequately replace in the event that they leave the Company, the absence of fixed term customer contracts and the termination of contracts by customers for convenience, the current 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, the Company's ability to generate cash from the planned reduction in excess work in process, currency fluctuations could adversely affect the Company's financial results or competitive position in the industry, the Company may not be able to maintain performance bonds or letters of credit required by its existing contracts or obtain performance bonds and letters of credit required for new contracts, third party debt service obligations may have important consequences to the Company, the covenants contained in the Company's senior credit facility and Subordinated Note indenture could impact the ability of the Company to fund distributions and take certain other actions, interest rates could change substantially and materially impact the Company's profitability, the dependence on limited sources of supply, the timely supply of materials from suppliers, the possibility of fluctuations in the market prices of the pension plan investments and discount rates used in the actuarial calculations will impact pension expense and funding requirements, the Company's profitability and performance can be adversely affected by increases in raw material and component costs, the availability of labour could have an impact on production levels, the ability of the Company to successfully execute strategic plans and maintain profitability and risks related to acquisitions, joint ventures, and other strategic relationships with third parties. The Issuer cautions that this list of factors is not exhaustive. These factors and other risks and uncertainties are discussed in the Issuer'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 the Issuer and the Company assume no obligation to update or revise them to reflect new events or circumstances, except as required by applicable securities laws.

DEFINITIONS OF EBITDA, ADJUSTED EBITDA AND FREE CASH FLOW

References to "EBITDA" are to earnings before interest expense, income taxes, depreciation and amortization; losses or gains on disposal of property, plant and equipment; unrealized foreign exchange losses or gains on non-current monetary items and forward foreign exchange contracts; fair value adjustments to other liabilities – the former Class B common shares ("Class B Shares") and Class C common shares ("Class C Shares") of the company's subsidiary, New Flyer Holdings, Inc, 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 business acquisition related costs, loss on debt repurchase, warranty expense assumed as a result of the ISE Corporation ("ISE") bankruptcy, past service pension costs, realized and unrealized investment tax credits, and costs associated with assessing strategic and corporate initiatives.

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

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

Business Overview

New Flyer is the leading manufacturer of heavy-duty transit buses in the United States and Canada and a leading provider of aftermarket parts and support. The Company operates three manufacturing facilities in Winnipeg, MB, St. Cloud, MN and Crookston, MN (all ISO 9001, ISO 14001 and OHSAS 18001 certified), as well as a bus parts fabrication facility in Elkhart, Indiana. The Company also has four parts distribution centers in Winnipeg, MB, Brampton, ON, Erlanger, KY and Fresno, CA and a service center in Arnprior, ON. With a skilled workforce of over 2,000 employees, New Flyer is the technology leader in the heavy-duty transit bus market, offering the broadest and most advanced product line in the industry. New Flyer's mission statement is: to deliver the best bus value and support for life.

Industry Overview

Funding for Heavy-Duty Transit market

The U.S. Congress approved a 90-day extension on March 29, 2012 of current surface transportation law governing federal transit and highway programs to allow federally funded transit authorities access to funding to purchase buses at the same funding as previous levels. The bill extends SAFETEA-LU and the collection of motor fuels taxes that are deposited in the Highway Trust Fund through June 30, 2012.

Recent Ridership Trends

Ridership in the United States has begun to improve, according to American Public Transportation Association (APTA). During the fourth quarter of 2011 overall transit bus ridership increased 3.3% compared to the same period in 2010 and increased by 1.3% for all of 2011 versus 2010. Management believes the increased ridership is a result of rising employment and higher gasoline prices. In addition, the Canadian Urban Transit Association (CUTA) reported that ridership for all modes of public transportation increased by 3.3% for 2011 compared to 2010.

Demand for Heavy-Duty Transit Buses

The Company created and tracks a new potential "pipeline" or "bid universe" of anticipated heavy-duty transit bus order activity. The pipeline consists of: bids received with proposal in process, bids submitted and awaiting award and solicitations expected to be released by transit agencies within a five-year horizon.

At the end of 2012 Q1, there were approximately 15,100 EUs in New Flyer's new potential pipeline or bid universe for heavy-duty transit buses, an increase from the approximately 13,300 EUs reported at the end of the 13-week period ended January 1, 2012 ("2011 Q4"). The increase was expected as many transit agencies awarded multi-year contracts in 2007 and 2008 which are set to expire. While this is the highest amount of EUs in the bid universe since New Flyer began tracking it in early 2008 and a positive indicator, the pipeline is expected to remain volatile for the next few years as customers deal with federal and local funding uncertainty and manage their fleet replacement planning. The quantity of EUs in bids received and proposals in process, and bids submitted and awaiting award by customers has increased from approximately 2,600 at the end of the 13-week period ended April 3, 2011 ("2011 Q1") to over 5,900 at the end of 2012 Q1.

Competitive Environment

Price, engineering to customer specification, styling, product quality, on-time delivery, established track record, strong customer relationships and bidders' financial strength are some of the key factors in winning bus manufacturing contracts. With customers experiencing significant budget pressure in the past few years, price has taken on a more meaningful weighting. The competitive landscape of the industry in the United States and Canada is limited to five major competitors including: New Flyer, Gillig Corporation, North American Bus Industries ("NABI") which is owned by Cerberus Capital, Nova Bus which is owned by Volvo and Orion which is owned by Daimler Trucks North America.

On April 25, 2012, Daimler Buses ("Daimler") announced that it has decided to exit the heavy duty transit bus business in North America and to wind down production of Orion buses in the U.S. and Canada. According to Daimler, effective immediately, Orion plans to take no additional new orders. Following the fulfillment of current production commitments over the next twelve months, Orion's operating facility in Mississauga, Ontario will be closed, and its facility in Oriskany, New York will continue operations related to parts and field service only. In addition, Daimler advised that it expects to continue a retrofit program for current customers at the Oriskany facility and to support all Orion customers' warranty and service agreements through its extensive network of parts and field service representatives in the United States and Canada.

It is management's belief that Orion delivered approximately 450 EUs in 2011, representing 8.7% of the total annual heavy-duty bus deliveries in Canada and the United States. For the last number of years, management estimates Orion's market share has ranged between 8% and 10%. With Orion exiting, management expects that New Flyer and the rest of the industry have sufficient capacity in manufacturing operations, and could likely expand volume without major disruption. However, management does not anticipate a material impact on New Flyer production in the near term at this time.

Aftermarket Parts

The Company provides parts and support for buses manufactured by both New Flyer and its competitors. Management believes that New Flyer provides the most comprehensive aftermarket support of all manufacturers in the industry today. Competitors in the aftermarket parts business include competing bus manufacturers, bus parts distributors and parts divisions of related industries (e.g., heavy-duty trucks).

Gross orders received for core aftermarket parts sales during 2012 Q1 exceeded the average of gross orders received in the previous four quarters by 3.7%. The Company's aftermarket parts gross order backlog for core sales activity as at the end of 2012 Q1 increased by 7.5% over the same period in 2011.

The sale of the New Flyer fleet of used articulated buses previously owned by OC Transpo continued during 2012 Q1. Firm orders were received for 10 of the remaining used buses, of which five were shipped in 2012 Q1. A further order is pending for 20 additional buses from a current New Flyer customer which would be refurbished at the Company's Arnprior Service Center. Several inquiries have been made from potential transit operators interested in the remaining 10 used buses.

2012 First Quarter in Review

During 2012 Q1 instability in the heavy-duty transit industry continued as the economy recovers and the U.S. heads to a Presidential election in the fall of 2012. At the same time, there were some positive signs in ridership; aging fleets (primarily of U.S. based transit operators), state tax collections increasing and general economic health, all of which are early indicators of a future recovery. As such, management is firmly focused on its long-term plans that include: a continued pursuit of operational excellence ("OpEx") to further reduce the direct cost of bus manufacturing, reduce material costs through strategic sourcing and to reduce overhead to allow for better cost competitiveness, and a commitment to the Company's product development and its product optimization plan to fully migrate to the next generation Xcelsior platform.

Subsequent to the Company's news release on April 17, 2012, management discovered that 555 EUs were awarded to another manufacturer in 2012 Q1 in addition to the 19 EUs previously reported. The award was made up of one large order.

The Company's 2012 Q1 order activity was 176 EUs, with a total value of $77.8 million. The 2012 Q1 order activity comprises new firm and new option orders of 28 EUs and exercised options of 148 EUs with approximately 34% of the EUs for clean-propulsion vehicles (i.e., hybrid or CNG). All order activity in 2012 Q1 was from repeat New Flyer customers reflecting the high quality product and strong customer loyalty. Of the options exercised in 2012 Q1, 39 EUs were from the Ontario Metrolinx consortium contract awarded to New Flyer in May 2011. In total, 354 EUs have been ordered under this Metrolinx contract and the previous Metrolinx contract awarded in 2008.

Also during 2012 Q1, New Flyer was awarded, for a third consecutive time, an umbrella contract with the procurement department of a U.S. state that enables the assignment of up to 500 options to any U.S. transit agency throughout 2012. As with previous contracts with this state, this contract is a 'standing offer' open to public transit agencies across the United States, and as a result, New Flyer does not record firm orders or options as part of its backlog. Management is unable to predict how many firm orders might result from these types of contracts. However, on a prior year's umbrella contract the Company was successfully awarded firm orders of 199 EUs, with a total value of approximately $82.0 million.

New Flyer's existing backlog position combined with the order intake over the last 12 months is expected to allow the Company to maintain the current production line entry rate of approximately 36 EUs per week. Deliveries in 2012 Q1 were 442 EUs compared to 468 EUs in 2011 Q1, a decrease due to there being one less work week which occurred at the beginning of 2012 Q1 as a result of the planned holiday shutdown.

The total backlog at the end of 2012 Q1 was 6,678 EUs with a total value of $2.83 billion, a decrease of 5.9% from the EU backlog at the end of the fourth fiscal quarter of 2011. The firm portion of the total backlog at the end of 2012 Q1 was 1,210 EUs, compared with 1,476 EUs at the end of 2011 Q4. This reduction in total backlog was consistent with management's expectations or the current market conditions. New Flyer's industry leading backlog includes the widest available range of bus models, lengths, and propulsion options for prospective customers allowing flexibility to maintain current production levels, flexibility that management believes most other transit bus manufacturers in the industry do not enjoy.

Historically options have represented a significant source of revenue for the Company but there can be no assurance that customers will continue to exercise or assign these options in the future. In some cases options are neither exercised nor assigned to third parties, but are simply allowed to expire by the transit agency. During 2012 Q1, only 5 of 153 option EUs expired or less than 0.1% of the total backlog. If not exercised or extended, there are approximately 1,400 EUs included in the order backlog scheduled to expire during 2012 and approximately 2,900 option EUs included in the order backlog scheduled to expire during 2013. New Flyer continues to monitor and actively promote the conversion of options to customers; and where not required by the transit authorities holding the options, they are actively brokered to other customers, as is the case with the 500 EU options that exist in the umbrella contract discussed above.

Included in the Company's total backlog are 1,800 EUs (240 firm order EUs and 1,560 option EUs) under a major 2008 U.S. customer order that was indefinitely deferred by the customer in 2009. Based on recent discussions with this customer, management believes that it is uncertain whether any of the 1,560 option EUs will be exercised prior to their expiry in 2013, or whether the 240 firm order EUs will enter the Company's production schedule in the near term or at all. From the date of the 2009 order deferral, none of the 1,800 EUs have ever been included in the Company's planned production schedule. As such, management believes the loss of some of these EUs from the total backlog would not have any impact on the Company's ability to maintain its current production line entry rate of approximately 36 EUs per week for the remainder of 2012.

On March 31, 2012, the Company announced that the members of the Canadian Auto Workers (CAW) main collective bargaining unit at the Winnipeg facility ratified a new collective bargaining agreement. This new three-year contract commenced on April 1, 2012 and will expire on March 31, 2015, and replaces the previous three-year agreement. The Winnipeg plant's unionized workforce represents approximately 32 percent of New Flyer's total workforce in Canada and the United States.

Under the terms of the new collective bargaining agreement ("CBA") there will be no wage increase in year one of the agreement; however, each bargaining unit employee received a C$800 signing bonus which is approximately equivalent to a 1.5% annualized wage increase. The agreement provides annual increases of 2.0% and 2.25% in years two and three of the agreement, respectively. The agreement also reduces entry level wage scales and freezes them for new employees during the term of the agreement. The parties have agreed to a 2.5% increase in pension benefits per year of credited service, effective only in year three of the agreement, in addition to certain other benefit enhancements.

Fiscal 2012 First Quarter Financial Results

The Company achieved consolidated revenue of $227.6 million for 2012 Q1 an increase of 6.2% compared to consolidated revenue for 2011 Q1 of $214.3 million.

Bus manufacturing revenue in 2012 Q1 of $196.2 million increased by 4.7% compared to bus manufacturing revenue of $187.5 million in 2011 Q1, primarily resulting from a 10.8% increase in average selling price per EU to $444.0 thousand in 2011 Q1 from $400.1 thousand in 2011 Q1, offset partially by a 5.6% decrease in deliveries and a $0.5 million unfavourable foreign currency impact. The increased average selling price per equivalent unit is attributable to a 2012 Q1 sales mix comprised of a very low percentage of articulated buses when compared to 2011 Q1. Total bus deliveries of 442 EUs in 2012 Q1 decreased compared to 2011 Q1 deliveries of 468 EUs, primarily as a result of there being one less work week which occurred at the beginning of 2012 Q1 as a result of the planned holiday shutdown.

2012 Q1 consolidated revenue for aftermarket operations of $31.4 million increased 16.8% when compared to $26.9 million in 2011 Q1 as a result of $4.5 million of higher volumes during 2012 Q1 when compared to 2011 Q1, which included $0.2 million of used bus sales.

Consolidated Adjusted EBITDA for 2012 Q1 totaled $16.7 million compared to $22.0 million in 2011 Q1, which represents a decrease of 24.1%.

2012 Q1 bus manufacturing operations Adjusted EBITDA of $10.9 million (5.6% of revenue) decreased by 33.1% compared to bus manufacturing operations Adjusted EBITDA of $16.4 million (8.7% of revenue) in 2011 Q1. The decrease in 2012 Q1 bus manufacturing operations Adjusted EBITDA is primarily due to a sales mix that included contract runs of lower average bus contract margins, decreased volumes, the negative impact of the appreciation in the value of the Canadian dollar compared to the U.S. dollar and investment tax credits realized in 2012 Q1 of $0.9 million decreased compared to $3.1 million in 2011 Q1. As well, Adjusted EBITDA was also impacted by $0.5 million charge as a result of the one-time signing bonus provided in the CBA; however the benefit will be realized over the remaining three quarters of Fiscal 2012 due to the negotiated wage freeze.

2012 Q1 aftermarket operations Adjusted EBITDA of $5.7 million (18.3% of revenue) increased by 2.2% compared to $5.6 million (20.9% of revenue) in 2011 Q1, primarily due to increased sales volumes offset by lower profit margins in the current period compared to 2011 Q1. The lower margins are due to pricing pressure that still exists in the current aftermarket industry.

The Company reported a net earnings of $2.7 million in 2012 Q1 representing an improvement compared to a net loss of $6.4 million in 2011 Q1, primarily as a result of lower non-cash charges of $3.2 million, the $3.4 million decrease in income taxes and the $9.5 million decrease of finance costs, offset by the $7.0 million decrease in earnings from operations in the current period.

Currently, the board of directors of NFI (the "Board") declares annual dividend payments of C$0.86 per Share. The Board expects to maintain this rate of dividends until no later than August 2012, the month during which NFI ULC has the option to redeem the remaining Subordinated Notes. After August 2012, the Board currently anticipates establishing an annualized dividend equal to approximately 50% of the previous annual IDS distribution level of C$1.17 per IDS. See “Dividend Policy”.

The Company generated Free Cash Flow of C$10.6 million during 2012 Q1 while declaring dividends of C$9.5 million as compared to C$4.2 million of Free Cash Flow generated in 2011 Q1 and declared dividends of C$4.9 million. The current Free Cash Flow generated is sufficient, and provisions have been made to sustain dividends until August 2012, at which time the Company expects to establish its new dividend policy.

During 2012 Q1, the Company decreased its cash by $2.6 million, due to $12.1 million of cash used in financing activities and $3.6 million invested in new growth equipment offset by $13.0 million of net cash generated by operating activities. Cash flows from operating activities were positively impacted as the number of EUs held in inventory had been reduced to its lowest levels seen in the last ten years. Alternatively, the Company invested in equipment such as laser cutting machines and a small parts paint system, which has enabled the Company to in-source many manufacturing functions previously performed by suppliers.

The April 1, 2012 liquidity position of $77.0 million is comprised of cash of $7.5 million and $69.5 million of available secured revolving credit facility. As at April 1, 2012, there were $7.0 million of direct borrowings and $13.5 million of outstanding letters of credits related to the $90.0 million of secured revolving credit. Management believes that these funds will provide the Company with sufficient liquidity and capital resources to meet its current and future financial obligations as they come due, as well as provide funds for its financing requirements, capital expenditures, dividend payments and other needs for the foreseeable future.

On May 7, 2012, the Company announced that it has entered into a long-term strategic arrangement with Alexander Dennis Limited to introduce a North American medium-duty low-floor bus (or “midi bus”) specifically developed and tested to a 10-year operational life. Alexander Dennis Limited is the United Kingdom’s largest manufacturer of medium, heavy-duty and double-deck transit buses and coaches. Under this strategic alliance, New Flyer is responsible for sales, marketing, manufacturing and aftermarket support with Alexander Dennis Limited performing engineering, test and prototype development activities. Prototypes of the midi bus for North America will be built this summer, with a planned market launch in early 2013. The midi bus will be offered to both public transit and private operators and will have propulsion system options ranging from clean diesel, electric hybrid and compressed natural gas. New Flyer estimates that the market for this type of product could be approximately 1,000 buses on an annual basis.

SELECTED FINANCIAL AND OPERATING INFORMATION

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

QUARTERLY AND ANNUAL FINANCIAL INFORMATION

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

Fiscal Period	Quarter	Revenue	Earnings from Operations	Net earnings (loss)	EBITDA[(1)]	Adjusted EBITDA[(1)]	Earnings (loss) per share[(3)]
2012	Q1	$ 227,644	$ 8,010	$ 2,727	$ 14,032	$ 16,686	0.06
	Total	**$ 227,644**	**$ 8,010**	**$ 2,727**	**$ 14,032**	**$ 16,686**	**0.06**
2011	Q4	$ 256,918	$ 30,063	$ 17,803	$ 35,214	$ 15,855	0.40
	Q3	229,308	15,764	15,074	18,228	22,206	0.62
	Q2	225,853	12,811	(7,319)	18,765	20,037	(1.48)
	Q1	214,344	14,991	(6,361)	20,943	21,989	(1.29)
	Total	**$ 926,423**	**$ 73,629**	**$ 19,197**	**$ 93,150**	**$ 80,087**	**0.98**
2010	Q4	$ 204,791	$ 2,894	$ (13,623)	$ 9,138	$ 17,822	(2.75)
	Q3	255,447	19,052	(3,215)	25,158	25,163	(0.65)
	Q2	280,540	27,284	33,167	33,183	33,310	6.97
	Q1	242,980	15,310	(13,928)	20,987	20,987	(2.94)
	Total	**$ 983,758**	**$ 64,540**	**$ 2,401**	**$ 88,466**	**$ 97,282**	**0.50**

						Inventory comprised of:	
Fiscal Period	Quarter	Inventory, Beginning (equivalent units)[(2)]	New Line Entry (equivalent units)[(2)]	Deliveries (equivalent units)[(2)]	Inventory, Ending (equivalent units)[(2)]	Work in process (equivalent units)[(2)]	Finished goods (equivalent units)[(2) & (4)]
2012	Q1	189	428	442	175	163	12
	Total	**189**	**428**	**442**	**175**	**163**	**12**
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**
2010	Q4	241	467	499	209	206	3
	Q3	262	505	526	241	236	5
	Q2	299	508	545	262	235	27
	Q1	245	507	453	299	287	12
	Total	**245**	**1,987**	**2,023**	**209**	**206**	**3**

COMPARISON OF FIRST QUARTER AND TRAILING TWELVE MONTHS RESULTS

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

		13-Weeks Ended April 1, 2012		13-Weeks Ended April 3, 2011		52-Weeks Ended April 1, 2012		52-Weeks Ended April 3, 2011
Statement of Earnings Data								
Revenue								
Canada	$	32,860	$	85,459	$	121,259	$	306,491
U.S.		163,373		101,999		697,933		542,942
Bus manufacturing operations		196,233		187,458		819,192		849,433
Canada		9,695		9,129		37,857		36,704
U.S.		21,716		17,757		82,674		68,985
Aftermarket operations		31,411		26,886		120,531		105,689
Total revenue	$	227,644	$	214,344	$	939,723	$	955,122
Earnings from operations	$	8,010	$	14,991	$	66,648	$	72,905
Earnings before finance costs and income taxes		5,656		9,439		64,871		55,423
Net earnings (loss)		2,727		(6,361)		28,285		7,829
EBITDA[(1)]		14,032		20,943		86,239		88,422
Adjusted EBITDA[(1)]								
Bus manufacturing operations including realized foreign exchange losses/gains		10,941		16,366		51,187		75,066
Aftermarket operations		5,745		5,623		23,597		23,218
Total Adjusted EBITDA[(1)]	$	16,686	$	21,989	$	74,784	$	98,284
Other Data								
Canada		78		253		280		879
U.S.		364		215		1,505		1,159
Total deliveries (equivalent units)[(2)]		442		468		1,785		2,038
Total capital expenditures	$	3,660	$	1,415	$	10,934	$	7,460
New options awarded	$	—	$	15,555	$	194,192	$	393,588
New firm orders awarded		12,017		47,828		50,839		414,229
Exercised options		65,869		30,172		561,425		310,044
Total firm orders	$	77,886	$	78,000	$	612,264	$	724,273

(Unaudited, US dollars in thousands)	April 1, 2012		January 1, 2012		January 2, 2011	
Selected Balance Sheet Data						
Total assets	$ 857,010		$ 870,462		$ 848,933	
Long-term financial liabilities	303,043		300,234		549,865	
Other Data		Equivalent Units[2]		Equivalent Units[2]		Equivalent Units[2]
Firm orders - USA	$ 482,609	1,068	$ 585,517	1,305	$ 694,141	1,518
Firm orders – Canada	62,178	142	72,390	171	138,517	379
Total firm orders[5]	544,787	1,210	657,907	1,476	832,658	1,897
Options – USA	2,158,586	5,177	2,204,229	5,286	2,761,784	6,610
Options - Canada	124,666	291	139,275	335	83,713	205
Total options[6]	2,283,252	5,468	2,343,504	5,621	2,845,497	6,815
Total Backlog	$ 2,828,039	6,678	$ 3,001,411	7,097	$ 3,678,155	8,712

Equivalent Units in Backlog (unaudited)	13 Weeks Ended April 1, 2012		52 Weeks Ended January 1, 2012		52 Weeks Ended January 2, 2011	
	Firm orders	Options	Firm orders	Options	Firm orders	Options
Beginning of period	1,476	5,621	1,897	6,815	2,082	6,908
New orders	28	—	182	477	1,013	914
Options exercised	148	(148)	1,208	(1,208)	825	(825)
Shipments	(442)	—	(1,811)	—	(2,023)	—
Cancelled/expired	—	(5)	—	(463)	—	(182)
End of period	1,210[5]	5,468[6]	1,476	5,621	1,897	6,815

Options included in the backlog expire, if not exercised, as follows:

2012	1,403
2013	2,919
2014	510
2015	520
2016	26
2017	90
Total options	5,468[6]

Notes:

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

(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) Earnings per share have been retrospectively adjusted to reflect the 10:1 share consolidation that occurred on September 30, 2011.

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

(5) Included in the Company’s total firm order backlog are 240 EUs under a major U.S. customer order. Based on recent discussions with this customer, it is uncertain whether any of these 240 EUs will enter the Company’s production schedule in the near term or at all. See “2012 First Quarter in Review” above.

(6) Included in the Company’s total option backlog are 1,560 option EUs under a major U.S. customer order. Based on recent discussions with this customer, it is uncertain whether any of these 1,560 option EUs will be exercised prior to their expected expiry in 2013. See “2012 First Quarter in Review” above.

RECONCILIATION OF NET EARNINGS TO EBITDA AND ADJUSTED EBITDA

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

(Unaudited, US dollars in thousands)	13-Weeks Ended April 1, 2012	13-Weeks Ended April 3, 2011	52-Weeks Ended April 1, 2012	52-Weeks Ended April 3, 2011
Net earnings (loss)	$ 2,727	$ (6,361)	$ 28,285	$ 7,829
Addback[(1)]				
Income taxes (recovered)	(742)	2,637	4,112	(4,562)
Finance cost	3,671	13,163	32,474	52,157
Amortization	6,022	5,952	24,313	24,333
Loss (gain) on disposal of property, plant and equipment	—	—	35	(7)
Fair value adjustment to embedded derivatives	1,395	(3,667)	6,215	(3,667)
Fair value adjustment to other liabilities – Class B Shares and Class C Shares	—	—	—	(1,923)
Unrealized foreign exchange loss on non-current monetary items and forward foreign exchange contracts	959	9,219	(9,195)	14,262
EBITDA[(2)]	14,032	20,943	86,239	88,422
Business acquisition related cost [(3)]	—	—	—	132
Warranty expense assumed from ISE bankruptcy [(5)]	—	—	—	8,684
Loss on debt repurchase[(6)]	—	—	4,722	—
Realized (unrealized) investment tax credits[(8)]	877	—	(19,653)	—
Past service pension costs[(9)]	1,762	—	1,762	—
Costs associated with assessing strategic and corporate initiatives[(7)]	15	1,046	1,714	1,046
Adjusted EBITDA [(2)]	$ 16,686	$ 21,989	$ 74,784	$ 98,284

RECONCILIATION OF CASH FLOW TO EBITDA AND ADJUSTED EBITDA

(Unaudited, US dollars in thousands)	13-Weeks Ended April 1, 2012	13-Weeks Ended April 3, 2011	52-Weeks Ended April 1, 2012	52-Weeks Ended April 3, 2011
Net cash generated by operating activities	$ 12,961	$ (50,437)	$ 24,928	$ 47,574
Addback[(1)]				
Changes in non-cash working capital items	(6,093)	51,958	4,085	(18,679)
Defined benefit funding	1,671	1,133	5,408	4,721
Defined benefit expense	(2,239)	(456)	(3,604)	(1,431)
Interest paid	4,170	13,674	33,921	51,389
Loss on debt repayment	—	—	(4,722)	—
(Realized) unrealized investment tax credits	(877)	—	19,653	—
Warranty expense assumed from ISE bankruptcy	—	—	—	(8,684)
Foreign exchange (loss) gain on cash held in foreign currency	209	1,760	523	3,480
Income taxes paid[(4)]	4,230	3,311	6,047	10,052
EBITDA[(2)]	14,032	20,943	86,239	88,422
Business acquisition related cost [(3)]	—	—	—	132
Warranty expense assumed from ISE bankruptcy [(5)]	—	—	—	8,684
Loss on debt repurchase[(6)]	—	—	4,722	—
Realized (unrealized) investment tax credits[(8)]	877	—	(19,653)	—
Past service pension costs[(9)]	1,762	—	1,762	—
Costs associated with assessing strategic and corporate initiatives[(7)]	15	1,046	1,714	1,046
Adjusted EBITDA [(2)]	$ 16,686	$ 21,989	$ 74,784	$ 98,284

Notes:

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

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

(3) Normalized to exclude non-recurring expenses related to the acquisition of certain assets and business of TCB Industries, LLC.

(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.

(5) Normalized to exclude the non-recurring item related to warranty expense assumed as a result of ISE’s bankruptcy.

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

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

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

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

SUMMARY OF FREE CASH FLOW

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

The Company generates its Free Cash Flow from its cash flows from operations and management expects this will continue to be the case for the foreseeable future. Net Cash flows generated by operating activities are significantly impacted by changes in non-cash working capital. The Company has a revolving credit facility to finance working capital and therefore has excluded the impact of working capital in calculating Free Cash Flow. As well, net cash generated by operating activities and net earnings are significantly affected by the volatility of current income taxes, which in turn produces temporary fluctuations in the determination of Free Cash Flow. For example during the 52-weeks ended April 1, 2012, a one-time income tax charge of $13.4 million (C$13.1 million) was imposed relating to the realization of a taxable gain on the refinancing of the credit facility and reallocation of previously applied foreign tax credits, which for the same period is equivalent to a reduction in Free Cash Flow per common share of C$0.4537. A detailed reconciliation of Free Cash Flow to net cash generated by operating activities is shown in the table below.

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

(Unaudited, US dollars in thousands)		13-Weeks Ended April 1, 2012		13-Weeks Ended April 3, 2011		52-Weeks Ended April 1, 2012		52-Weeks Ended April 3, 2011
Net cash generated by operating activities	$	12,961	$	(50,437)	$	24,928	$	47,574
Changes in non-cash working capital items(3)		(6,093)		51,958		4,085		(18,679)
Interest paid(3)		4,170		13,674		33,921		51,389
Interest expense(3)		(3,605)		(13,163)		(31,193)		(53,092)
Income taxes paid(3)		4,230		3,311		6,047		10,052
Current income tax (expense) recovered(3)		857		(2,840)		(17,950)		(6,958)
Principal portion of finance lease payments		(645)		(678)		(2,699)		(2,567)
Cash capital expenditures (9)		(2,679)		(1,023)		(5,340)		(6,570)
Proceeds from sale of redundant assets		—		—		35		7
Business acquisition related cost (6)		—		—		—		132
Costs associated with assessing strategic and corporate initiatives(8)		15		1,046		1,714		1,046
Past service pension costs(10)		1,762		—		1,762		—
Defined benefit funding(4)		1,671		1,133		5,408		4,721
Defined benefit expense(4)		(2,239)		(456)		(3,604)		(1,431)
Foreign exchange gain on cash held in foreign currency(5)		209		1,760		523		3,480
Free Cash Flow (US$)(1)		10,614		4,285		17,637		29,104
U.S. exchange rate(2)		0.9992		0.9812		0.9870		1.0230
Free Cash Flow(1) (C$)		**10,606**		**4,204**		**17,408**		**29,773**
Free Cash Flow per Share (C$)(7)		0.2390		0.8497		0.5893		6.0836
Declared dividends on Shares (C$)		**9,542**		**4,896**		**30,694**		**19,440**
Declared dividend per Share (C$)(7)	$	0.2150	$	0.9896	$	1.0391	$	3.9722

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

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

(3) Changes in non-cash working capital are excluded from the calculation of Free Cash Flow as these temporary fluctuations are managed through the Company's $90.0 million revolving credit facility which is available for use to fund general corporate requirements including working capital requirements, subject to borrowing capacity restrictions. In accordance with IFRS financial statement presentation, changes in non-cash working capital is now being presented on the consolidated statement of cash flow net of interest and incomes taxes paid, whereas the change in non-cash working capital was previously presented net of accrued interest expense and income taxes.

(4) The cash effect of the difference between the defined benefit expense and funding is included in the determination of cash from operating activities. This cash effect is excluded in the determination of Free Cash Flow as management believes that the defined benefit expense amount provides a more appropriate measure, as the defined benefit funding can be impacted by special payments to reduce the unfunded pension liability.

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

(6) Normalized to exclude non-recurring expenses related to the acquisition of certain assets and business of TCB Industries, LLC.

(7) Per unit 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 (including those held in the form of an IDS) using the weighted average over the period. To reflect the 10:1 Share consolidation, a retrospective application is required in calculating the basic and diluted earnings per share using the weighted average number of Shares outstanding for 2012 Q1 and 52-week period ended April 1, 2012 of 44,379,070 and 29,538,077, respectively. The weighted average number of Shares outstanding for 2011 Q1 and 52-week period ended April 3, 2011, was 4,947,528 and 4,894,000 respectively.

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

(9) During 2011 Q3, the Company borrowed $4.0 million from its delayed draw loan portion of the Credit Facility. Proceeds from the loan were used to purchase growth capital expenditures in both 2011 Q3 and 2011 Q4 and thus positively impacting cash capital expenditures for 52 weeks ended April 1, 2012.

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

Dividend Policy

It is the Board's intent to have a common share dividend policy that is consistent with New Flyer's financial performance and the need 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. Currently, the Board declares annual dividend payments of C$0.86 per Share and anticipates establishing, no later than August 2012, an annualized dividend equal to approximately 50% of the previous annual IDS distribution level of C$1.17 per IDS. The previous IDS distribution consisted of an annual dividend payment of C$0.396 per Share and an annual interest payment of C$0.774 per C$5.53 principal amount of Subordinated Notes.

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. This dividend policy reflects a shift from the previous distribution policy, pursuant to which substantially all of New Flyer's available cash flow was distributed to IDS holders. The Board believes that this dividend level will enhance the financial flexibility of New Flyer to fund growth capital expenditures, acquisitions and other internal financing needs.

New Flyer decreased IDS distributions (the "Special Distribution") effective with the July 2011 distribution payable on August 15, 2011. The Special Distribution consists of an annual dividend payment of C$0.86 per Share (adjusted from C$0.086 as a result of the Share consolidation effective September 30, 2011) and an annual interest payment of C$0.774 per C$5.53 principal amount of Subordinated Note. The current dividend has increased compared to the previous annual dividend of C$0.396 per Share as a result of the reduced interest costs related to Subordinated Notes exchanged for Shares. The Board expects to maintain this Special Distribution on a monthly basis until no later than August 2012, the month during which NFI ULC has the option to redeem the remaining Subordinated Notes, although such distributions are not assured.

Currency Impact on the Company's Reported Results

The Financial Statements are presented in U.S. dollars. New Flyer operates in both the United States and Canada and, as a result, its combined reported results are impacted by fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar. These fluctuations can represent a significant component of the variations in reported results from one period to the next. The Company's Adjusted EBITDA (which is reported in U.S. dollars) is also exposed to foreign currency fluctuations between reporting periods. For example, assuming the Company's net assets are predominately originating in Canadian dollars and the exchange rate of the Canadian dollar compared to the U.S. dollar depreciates, then the related Adjusted EBITDA that is generated in Canadian dollars would be materially adversely affected as compared to the level determined with the prevailing exchange rate during the previous comparable reporting period. However, Free Cash Flow is less likely to be affected by Canadian/U.S. dollar exchange rate fluctuations given that the Company has other significant Canadian dollar denominated payment requirements which are not included in Adjusted EBITDA, including interest on the Subordinated Notes and current income taxes. For that reason, management's strategy is to mitigate foreign currency exposure based on net cash flow rather than Adjusted EBITDA.

As at April 1, 2012, 11.4% (January 1, 2012: 11.0%) of the Company's firm order backlog consisted of orders representing Canadian dollar-denominated revenue. Based on this current backlog position and the Company's historically stable Canadian dollar-denominated operating costs, management expects the Company to generate a net Canadian dollar cash outflow during Fiscal 2012 primarily as a result of the higher percentage of U.S. dollar denominated orders in the Company's backlog.

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 2012 Q1, the Company recorded a realized foreign exchange loss of $0.2 million (2011: $0.7 million gain). This was comprised of a $0.4 million gain on settlement of foreign exchange contracts and a $0.6 million foreign currency loss on translation of Canadian dollar denominated operations.

At April 1, 2012, the Company had $7.0 million foreign exchange forward contracts to buy Canadian dollars that expire May 2012. The related asset of $0.03 million (2011: $0.1 million) is recorded on the statement of financial position as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts has been recorded in the condensed consolidated statement of net earnings (loss) and comprehensive income (loss).

Fiscal and Interim Periods

The Company's Fiscal 2012 period is divided in quarters. The following table summarizes the number of weeks in the fiscal and interim periods presented for the Company:

	Period from January 2, 2012 to December 30, 2012 ("Fiscal 2012")		**Period from January 3, 2011 to January 1, 2012 ("Fiscal 2011")**	
	Period End Date	# of Weeks	Period End Date	# of Weeks
Quarter 1	April 1, 2012	13	April 3, 2011	13
Quarter 2	July 1, 2012	13	July 3, 2011	13
Quarter 3	September 30, 2012	13	October 2, 2011	13
Quarter 4	December 30, 2012	13	January 1, 2012	13
Fiscal year	December 30, 2012	52	January 1, 2012	52

Results of Operations

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

(Unaudited, US dollars in thousands)	2012 Q1 (13-Weeks)	2011 Q1 (13-Weeks)
Bus Manufacturing Revenue	$ 196,233	$ 187,458
Aftermarket Revenue	31,411	26,886
Total Revenue	$ 227,644	$ 214,344
Earnings from operations	8,010	14,991
Earnings before finance costs and income taxes	5,656	9,439
Earnings (loss) before income taxes	1,985	(3,724)
Net earnings (loss) for the period	2,727	(6,361)

Revenue

The Company achieved consolidated revenue of $227.6 million for 2012 Q1 an increase of 6.2% compared to consolidated revenue for 2011 Q1 of $214.3 million. Bus manufacturing revenue in 2012 Q1 of $196.2 million increased by 4.7% compared to bus manufacturing revenue of $187.5 million in 2011 Q1, primarily resulting from a 10.8% increase in average selling price per EU to $444.0 thousand in 2012 Q1 from $400.1 thousand in 2011 Q1, offset partially by a 5.6% decrease in deliveries and a $0.5 million unfavourable foreign currency impact. The increased average selling price per equivalent unit is attributable to a 2012 Q1 sales mix comprised of a very low percentage of articulated buses when compared to 2011 Q1. Total bus deliveries of 442 EUs in 2012 Q1 decreased compared to 2011 Q1 deliveries of 468 EUs, primarily as a result of there being one less work week which occurred at the beginning of 2012 Q1 due to the planned holiday shutdown. 2012 Q1 consolidated revenue for aftermarket operations of $31.4 million increased 16.8% when compared to $26.9 million in 2011 Q1 as a result of $4.5 million of higher volumes during 2012 Q1 when compared to 2011 Q1, which included $0.2 million of used bus sales.

Cost of sales

The consolidated cost of sales for 2012 Q1 of $207.9 million increased by 10.9% from 2011 Q1 consolidated cost of sales of $187.5 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 2012 Q1 were $185.1 million compared to $168.8 million in 2011 Q1, an increase of 9.7%. This increase in cost of sales primarily relates to sales mix comprised of higher cost buses, as evidenced by the 10.8% increase in selling price when comparing the two periods partially offset by the decrease in deliveries.

The cost of sales from aftermarket operations were $22.8 million in 2012 Q1 compared to $18.7 million in 2011 Q1, representing an increase of 21.9%, primarily due to increased volumes and a mix of higher cost products being sold when comparing the two periods.

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

The SG&A for 2012 Q1 of $11.6 million decreased 7.8% compared with $12.5 million incurred in 2011 Q1. However, the 2011 Q1 costs included $1.0 of incremental costs to assess strategic and corporate initiatives and $0.9 million dollars of severance costs relating to the March 2011 employment reductions.

Realized foreign exchange loss (gain)

In 2012 Q1, the Company recognized a net realized loss of $0.2 million compared with a $0.7 million net realized gain in 2011 Q1. The increase in realized foreign exchange losses is primarily as a result of realization of foreign exchange losses on working capital accounts offset by favourable settlements of foreign exchange transactions.

Earnings from operations

The consolidated earnings from operations for 2012 Q1 in the amount of $8.0 million (3.5% of revenue) decreased 46.6% compared to earnings from operations in 2011 Q1 of $15.0 million (7.0% of revenue).

The earnings from bus manufacturing operations (including amortization and depreciation) for 2012 Q1 were $2.3 million compared to earnings of $9.4 million for 2011 Q1 (1.2% and 5.0%, respectively, of bus manufacturing revenue). The decrease in earnings from bus manufacturing operations during 2012 Q1 is a result of the one-time pension and wage benefits provided in the new CBA, investment tax credits realized in 2012 Q1 of $0.9 million decreased compared to $3.1 million in 2011 Q1 and a $0.9 million unfavourable foreign currency impact. Whereas, 2011 Q1 benefited from incremental vendor rebates of $2.5 million and a $2.0 million favourable foreign currency impact offset by $0.9 million of severance costs and $1.0 of incremental costs to assess strategic and corporate initiatives.

The earnings from aftermarket operations of $5.7 million in 2012 Q1 increased by 2.2% compared to 2011 Q1 earnings of $5.6 million. The increase was primarily due to increased volumes as 2012 Q1 operations margin of 18.3% decreased as compared to 20.9% in 2011 Q1.

Unrealized foreign exchange loss

Unrealized foreign currency losses arise primarily from the revaluation of the Canadian dollar-denominated long-term debt. In 2012 Q1, the Company recognized a net unrealized loss of $1.0 million compared to a net unrealized loss of $9.2 million in 2011 Q1. These results consist of the following:

(Unaudited, US dollars in thousands)	**2012 Q1**	**2011 Q1**
Unrealized loss on Canadian-denominated long-term debt	$ 1,124	$ 9,899
Unrealized loss (gain) on forward foreign exchanges contracts	114	(466)
Unrealized gain on other non-monetary assets/liabilities	(279)	(214)
	$ 959	$ 9,219

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

In 2012 Q1, the Company recorded EBIT of $5.7 million compared to EBIT of $9.4 million in 2011 Q1. EBIT has been impacted by non-cash and non-recurring items as follows:

(Unaudited, US dollars in thousands)	**2012 Q1**	**2011 Q1**
Non-cash and non-recurring charges (recovery):		
Costs associated with assessing strategic and corporate initiatives	$ 15	$ 1,046
Fair value adjustment to embedded derivatives	1,395	(3,667)
Unrealized foreign exchange loss	959	9,219
Realized investment tax credits	877	—
Past service pension costs	1,762	—
Amortization	6,022	5,952
Total non-cash and non-recurring charges:	$ 11,030	$ 12,550

Absent these non-cash and non-recurring charges/recoveries, the 2012 Q1 EBIT would have been $16.7 million compared to $22.0 million in 2011 Q1.

Finance costs

Finance costs for 2012 Q was $3.7 million, a 72.1% decrease compared to $13.2 million in 2011 Q1, primarily due to a $9.9 million decrease in the interest on the Subordinated Notes as a result of the Subordinated Notes repurchased in November 2011 and as part of the NFI's August 2011 non-cash rights offering.

Earnings (Loss) before income taxes

Earnings before income taxes for 2012 Q1 were $2.0 million compared to loss before income taxes of $3.7 million in 2011 Q1. The increase in the earnings before income taxes between these periods result primarily from the decrease in finance costs in 2011 Q1.

Income taxes

Current income taxes are comprised of Canadian federal and provincial corporate income taxes, withholding taxes and U.S. federal and state income taxes. Whereas, deferred income taxes are primarily comprised of U.S. federal income taxes derived as a reduction of the deferred income tax asset related to the utilization of the U.S. federal tax credit pool.

The income tax expense recovered for 2012 Q1 was $0.7 million, consisting of $0.8 million of current income tax expense recovered and $0.1 million of deferred income tax expense. In comparison, the income tax expense for 2011 Q1 was $2.6 million, which consists of $2.8 million of current income tax expense and $0.2 million of deferred income tax recovered.

Net earnings (loss)

The Company reported net earnings of $2.7 million in 2012 Q1 compared to a net loss of $6.4 million in 2011 Q1. The increase in net earnings in 2012 Q1 is primarily attributable to the increase in earnings before income taxes and a decrease in income taxes as noted above. The Company's net earnings (losses) can be subject to a high degree of volatility from one fiscal period to the next as a result of non-cash accounting adjustments and income taxes.

Cash Flow

The cash flows of the Company are summarized as follows:

(Unaudited, US dollars in thousands)	**2012 Q1**	**2011 Q1**
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	$ 15,268	$ 18,506
Changes in non-cash working capital items	6,093	(51,958)
Interest paid	(4,170)	(13,674)
Income taxes paid	(4,230)	(3,311)
Cash flow from operating activities	12,961	(50,437)
Cash flow from financing activities	(12,134)	(5,340)
Cash flow from investing activities	(3,660)	(1,654)

Cash flows from operating activities

The 2012 Q1 net operating cash inflow of $13.0 million is the result of an increase of $6.1 million in non-cash working capital and a $6.9 million of net cash earnings, compared to 2011 Q1 net operating cash outflow of $50.4 million which resulted primarily from an increase of $52.0 million in non-cash working capital. The 2011 Q1 non-cash working capital changes are primarily due to the significant increased accounts receivables, inventories and recognizing deferred revenue associated with the delivery of remaining city of Ottawa buses offset by increased accounts payables.

Cash flow from financing activities

The Company's financing activities resulted in a net cash outflow of $12.1 million and $5.3 million for 2012 Q1 and 2011 Q1, respectively. The increased outflow primarily relates to $4.8 million of increased dividends paid as a result of the August 2011 non-cash rights offering and the $2.0 million repayment of the revolving credit facility.

Cash flow from investing activities

2012 Q1 investing activities resulted in a net cash outflow of $3.7 million compared to $1.7 million in 2011 Q1. 2011 Q1 investing activities also include the acquisition of $0.6 million of intellectual property pursuant to a license agreement with Bluways USA, Inc.

The composition of the capital expenditures was as follows:

(Unaudited, US dollars in thousands)	2012 Q1	2011 Q1
Capital expenditures	$ 3,660	$ 1,415
Less capital expenditures funded by bank loans	(980)	—
Less capital expenditures funded by capital leases	(1)	(392)
Cash capital expenditure	2,679	1,023
Comprised of:		
Maintenance capital expenditures	307	434
Growth capital expenditures	2,372	589
	2,679	1,023

Liquidity and Capital Resources

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

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

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

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

The Company generated Free Cash Flow of C$10.6 million during 2012 Q1 while declaring dividends of C$9.5 million as compared to C$4.2 million of Free Cash Flow generated in 2011 Q1 and declared dividends of C$4.9 million. The current Free Cash Flow generated is sufficient, and provisions have been made to sustain dividends until August 2012, at which time the Company expects to reduce the annualized dividend payment to approximately 50% of the previous annual IDS distribution level of C$1.17 per IDS. See "Dividend Policy".

During 2012 Q1, the Company decreased its cash by $2.6 million, due to $12.1 million of cash used in financing activities and $3.6 million invested in new growth equipment offset by $13.0 million of net cash generated by operating activities. Cash flows from operating activities were positively impacted as the number of EUs held in inventory had been reduced to its lowest levels seen in the last ten years. Alternatively, the Company invested in equipment such as laser cutting machines and a small parts paint system, which has enabled the Company to in-source many manufacturing functions previously performed by suppliers.

The April 1, 2012 liquidity position of $77.0 million is comprised of cash of $7.5 million and $69.5 million of available secured revolving credit facility. As at April 1, 2012, there were $7.0 million of direct borrowings and $13.5 million of outstanding letters of credits related to the $90.0 million of secured revolving credit. Management believes that these funds will provide the Company with sufficient liquidity and capital resources to meet its current and future financial obligations as they come due, as well as provide funds for its financing requirements, capital expenditures, dividend payments and other needs for the foreseeable future.

As at April 1, 2012, the Company is in compliance with the financial covenants in its credit facility. The results of the financial covenants tests as of such date are as follows:

	April 1, 2012	January 1, 2012
Senior Leverage Ratio (must be less than 2.50)	1.53	1.43
Total Leverage Ratio (must be less than 4.75)	2.32	2.15
Fixed Charge Coverage Ratio (must be greater than 1.10)	1.53	1.26

Interest rate risk

In connection with the Credit Facility, the Company has an interest rate swap designed to hedge floating rate exposure to manage interest rate risk relating to potentially adverse changes in the LIBOR rate on $90.0 million out of the $111.0 million of the drawn term credit facility. The interest rate swap fixes the interest rate at 1.90% plus the applicable interest margin until April 2014. The fair value of the interest rate swap liability of $2,759 at April 1, 2012 (January 1, 2012: $2,811) was recorded on the interim condensed consolidated statements of financial position as a derivative financial instruments liability and the change in fair value has been recorded as finance costs for the reported period.

Credit risk

Financial instruments which potentially subject the Company to credit risk and concentrations of credit risk consist principally of cash, accounts receivable and derivatives. Management has assessed that the credit risk associated with accounts receivable is mitigated by the significant proportion for which the counterparties are well-established transit authorities. Additionally, the U.S. federal government funds a substantial portion of U.S. customer payments, as 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 receivables corresponds to their book value. Historically, the Company has experienced nominal bad debts as a result of the customer base being principally comprised of municipal and other local transit authorities.

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

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

	April 1, 2012	January 1, 2012
Current, including holdbacks	$ 97,259	$ 110,563
Past due amounts but not impaired		
1 – 60 days	4,372	2,671
Greater than 60 days	7,615	2,665
Less: Allowance for doubtful accounts	(56)	(49)
Total accounts receivables, net	$ 109,190	$ 115,850

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

As at April 1, 2012, outstanding surety bonds guaranteed by the Company amounted to $42.3 million, representing an increase compared to $32.0 million at January 1, 2012. 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 April 1, 2012, letters of credit amounting to $13.5 million remained outstanding under the letter of credit.

Deferred Compensation Plans

Effective January 1, 2012, the Board approved the NFI ULC Restricted Share Unit Plan (the "RSU Plan") which 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, subject to vesting.

The purposes of the performance unit plan ("PUP") and the RSU plan (collectively, the "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 Incentive Plans are 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. Under the terms of the Incentive Plans, the human resources, compensation and corporate governance committee may grant eligible participants each year unit grants thereunder 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. Units granted under the PUP generally vest at the end of the third fiscal year following the date of grant based on the Company achieving certain specified Adjusted EBITDA targets. RSUs will generally vest at the end of the third fiscal year following the date of grant. 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. Units shall also immediately vest upon the closing of a transaction resulting in certain change of control events and upon certain terminations of employment.

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 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 annual retainer 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. 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.

The Company recognizes compensation expense using the accrual method, based on the best available estimates of the outcome of the performance condition. The effect of a change in estimate is recognized in the period in which it occurs. For 2012 Q1, a compensation expense of $0.6 million (2011 Q1: $0.4 million) was recorded in the unaudited interim condensed consolidated statements of net earnings (loss) and comprehensive income (loss).

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 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. Management has not yet evaluated the impact on the financial statements.

As part of the above IFRS 7 amendment, aspects of IAS 32 Financial Instruments: Presentation, was also clarified. The amendments to IAS 32 address inconsistencies in current practice when applying the requirements. The amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively. Management has not yet evaluated the impact on the financial statements.

IFRS 9 Financial Instruments:

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

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. Management has not yet evaluated the impact on the financial statements.

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. Management has not yet evaluated the impact on the financial statements.

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 July 1, 2012. The Company does not expect any material impact to the financial statements as a result of adopting this standard.

IFRS 10 Consolidated Financial Statements:

The new standard uses control as the single basis of consolidation for all entities with three elements to control: power over an investee; exposure or rights to variable returns; and the ability to affect returns. Retrospective application is required, subject to certain transitional provisions, effective January 1, 2013. Management has not yet evaluated the impact on the financial statements.

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. Management does not expect a material impact to the financial statements as a result of adopting this standard.

IFRS 12 Disclosure of Interest in Other Entities:

IFRS 12 requires extensive disclosure relating to an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structure entities. Incorporation of disclosure is permitted, without early adoption of IFRS 12, IFRS 10, IFRS 11, IAS 27 (as amended 2011) and IAS 28 (as amended 2011), effective January 1, 2013. Management does not expect a material impact to the financial statements as a result of adopting this standard.

IAS 27 (as amended 2011) Separate Financial Statements:

IAS 27 (2011) provides guidance on the accounting and disclosure requirements for subsidiaries, jointly controlled entities, and associates in separate, or unconsolidated, financial statements, effective January 1, 2013. Management does not expect a material impact to the financial statements as a result of adopting this standard.

IAS 28 (as amended 2011) Investments in Associates:

The amended IAS 28 (2011) provides detailed guidance on the application of the equity method to associates, subsidiaries and joint ventures (previously excluded from this standard), effective January 1, 2013. Management does not expect a material impact to the financial statements as a result of adopting this standard.

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 generally accepted accounting principles. Management, under the supervision of the CEO and CFO, evaluated the design of the Company's ICFR as of January 1, 2012 in accordance with the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and concluded that the Company's ICFR are effective.

There have been no changes in the Company's ICFR during the most recent interim period that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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

Disclosure Controls

Management is responsible for establishing and maintaining disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner and that information required to be disclosed is reported within time periods prescribed by applicable securities legislation. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. The Company's CEO and CFO have concluded that disclosure controls and procedures as at January 1, 2012 were effective.

Interim Condensed Consolidated Financial Statements of

NEW FLYER INDUSTRIES INC.

April 1, 2012

(Unaudited)

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NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)
April 1, 2012
(unaudited, in thousands of U.S. dollars except per share figures)

		13-Weeks Ended April 1, 2012		13-Weeks Ended April 3, 2011
Revenue (note 12)	$	227,644	$	214,344
Cost of sales (note 4)		207,896		187,488
Gross profit		19,748		26,856
Sales, general and administration costs and other operating expenses		**11,552**		12,534
Foreign exchange loss (gain) (note 11b)		186		(669)
Earnings from operations		8,010		14,991
Unrealized foreign exchange loss on non-current monetary items		959		9,219
Fair value adjustment to embedded derivatives		1,395		(3,667)
Earnings before finance costs and income taxes		5,656		9,439
Finance costs				
Interest on long-term debt		3,087		13,017
Accretion in carrying value of long-term debt		118		239
Other interest and bank charges		518		333
Fair value adjustment on interest rate swap		(52)		(426)
		3,671		13,163
Earnings (loss) before income tax expense		1,985		(3,724)
Income tax (recovered) expense (note 5)				
Current income taxes (recovered)		(857)		2,840
Deferred taxes (recovered)		115		(203)
		(742)		2,637
Net earnings (loss) for the period	$	2,727	$	(6,361)
Other comprehensive loss for the period, net of tax				
Actuarial loss on defined benefit pension plan (note 9)		(80)		—
Total comprehensive income (loss) for the period		2,647		(6,361)
Net earnings (loss) per share (basic and diluted) (note 7)	$	0.06	$	(1.29)

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

NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

April 1, 2012

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

		April 1, 2012		January 1, 2012
Assets				
Current				
Cash	$	7,509	$	10,133
Accounts receivable (note 3,11d)		109,190		115,850
Income taxes recoverable		1,272		—
Inventories (note 4)		92,552		93,491
Derivative financial instruments (note 11b)		31		145
Prepaid expenses and deposits		3,841		5,077
		214,395		224,696
Property, plant and equipment		39,182		37,397
Long-term receivable		2,104		—
Embedded derivative instruments (note 11b)		2,357		3,684
Unused investment tax credits		22,889		23,766
Deferred tax assets (note 5)		35,720		36,558
Goodwill and intangible assets		540,363		544,361
	$	857,010	$	870,462
Liabilities				
Current				
Accounts payable and accrued liabilities	$	155,387	$	152,207
Income taxes payable		—		4,964
Deferred revenue		1,234		1,897
Provisions (note 14)		29,609		32,808
Current portion of long-term debt (note 6)		7,000		9,000
Current portion of deferred compensation obligation (note 10)		1,501		1,404
Current portion of obligations under finance leases		2,387		2,377
		197,118		204,657
Accrued benefit liability (note 9)		10,012		9,136
Obligations under finance leases		1,490		2,102
Deferred compensation obligation (note 10)		828		262
Deferred tax liabilities (note 5)		119,877		119,088
Long-term debt (note 6)		168,077		166,835
Derivative financial instruments (note 11b)		2,759		2,811
		500,161		504,891
Commitments and contingencies (note 13)				
Shareholders' equity				
Share capital (note 7)		476,918		476,918
Deficit		(120,069)		(111,347)
		356,849		365,571
	$	857,010	$	870,462

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

Authorized for issue by the board of directors on May 9, 2012.

NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

April 1, 2012

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

	Share Capital	Deficit	Total Shareholders' Equity
Balance, January 2, 2011	**$ 226,338**	**$ (99,225)**	**$ 127,113**
Net loss and comprehensive loss for the period	—	(6,361)	(6,361)
Dividends declared on common shares	—	(4,990)	(4,990)
Balance, April 3, 2011	**226,338**	**(110,576)**	**115,762**
Shares issued in exchange for Subordinated Notes included in IDS units on August 19, 2011	248,542	—	248,542
Share issuance costs	(4,600)	—	(4,600)
Net earnings for the period	—	25,558	25,558
Other comprehensive loss for the period	—	(1,990)	(1,990)
Dividends declared on common shares	—	(21,091)	(21,091)
Deferred tax assets recognized as a result of historical share issuances	6,638	(3,248)	3,390
Balance, January 1, 2012	**476,918**	**(111,347)**	**365,571**
Net earnings for the period	—	2,727	2,727
Other comprehensive loss for the period	—	(80)	(80)
Dividends declared on common shares	—	(9,550)	(9,550)
Deferred tax assets recognized as a result of historical share issuances	—	(1,819)	(1,819)
Balance, April 1, 2012	**$ 476,918**	**$ (120,069)**	**$ 356,849**

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

NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

April 1, 2012

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

	13-Weeks Ended April 1, 2012	13-Weeks Ended April 3, 2011
Cash generated by (used in)		
Operating activities		
Net earnings (loss) for the period	$ 2,727	$ (6,361)
Income tax (recovered) expense	(742)	2,637
Depreciation of plant and equipment	2,024	1,965
Amortization of intangible assets	3,998	3,987
Finance costs recognized in profit or loss	3,671	13,163
Unrealized foreign exchange loss on non-current monetary items	959	9,219
Foreign exchange gain on cash held in foreign currency	(209)	(1,760)
Fair value adjustment to embedded derivatives	1,395	(3,667)
Realized investment tax credits	877	—
Defined benefit expense (note 9)	2,239	456
Defined benefit funding (note 9)	(1,671)	(1,133)
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	15,268	18,506
Changes in non-cash working capital items (note 8)	6,093	(51,958)
Cash generated by operations before interest and income taxes paid	21,361	(33,452)
Interest paid	(4,170)	(13,674)
Income taxes paid	(4,230)	(3,311)
Net cash generated by (used in) operating activities	12,961	(50,437)
Financing activities		
Repayment of obligations under finance leases	(645)	(678)
Repayment of long-term debt	(2,000)	—
Dividends paid	(9,489)	(4,662)
Net cash used in financing activities	(12,134)	(5,340)
Investing activities		
Acquisition of intangibles assets	—	(631)
Acquisition of property, plant and equipment	(3,660)	(1,023)
Net cash used in investing activities	(3,660)	(1,654)
Effect of foreign exchange rate on cash	209	1,760
Decrease in cash	(2,624)	(55,671)
Cash — beginning of period	10,133	73,463
Cash — end of period	$ 7,509	$ 17,792

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

1. CORPORATE INFORMATION

New Flyer Industries Inc. ("NFI" or the "Company") was incorporated on June 16, 2005 under the laws of the Province of Ontario. The Company is the manufacturer of the New Flyer branded heavy-duty transit buses. The business also includes aftermarket parts and support including the sale of bus parts. The Company's principal place of business is Winnipeg, Manitoba, as well as two other manufacturing facilities in St. Cloud, MN and Crookston, MN (all ISO 9001, ISO 14001 and OHSAS 18001 certified), as well as a bus parts fabrication facility in Elkhart, Indiana. The Company also has four parts distribution centers in Winnipeg, MB, Brampton, ON, Erlanger, KY and Fresno, CA and a service center in Arnprior, ON.

The Company's common shares (the "Shares") are listed on the Toronto Stock Exchange ("TSX") under the symbol "NFI" and the Income Deposit Security units ("IDS") of the Company and New Flyer Industries Canada ULC ("NFI ULC") are listed on the TSX under the symbol "NFI.UN". As a result of a consolidation of all of the issued and outstanding Shares on a 10 to 1 basis, effective September 30, 2011, each IDS consists of one Share and C$55.30 principal amount of 14% Subordinated Notes of NFI ULC ("Subordinated Notes").

These unaudited interim condensed consolidated financial statements (the "Statements") were approved by the Company's board of directors on May 9, 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Statements are the same as those applied by the Company in its consolidated financial statements as at and for the 52 week period ended January 1, 2012. These Statements should be read in conjunction with the Company's consolidated financial statements as at and for the 52 week period ended January 1, 2012.

2.1 Statement of Compliance

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

2.2 Basis of preparation

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

In preparing these Statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those as those applied by the Company in its consolidated financial statements as at and for the 52 week period ended January 1, 2012.

2.3 Principles of consolidation

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

2.4 Standards recently adopted

IAS 12 Income Tax, Amendment regarding Deferred Tax: Recovery of Underlying Asset:

IAS 12 Income Taxes is amended to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will normally be through sale. As a result of the amendments, SIC-21 Income Taxes — Recovery of Revalued Non-Depreciable Assets would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21. The amendments are effective beginning January 1, 2012. There was no material impact to the Statements as a result of adopting this standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Standards issued but not yet adopted

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. Management has not yet evaluated the impact on the financial statements.

As part of the above IFRS 7 amendment, aspects of IAS 32 Financial Instruments: Presentation, was also clarified. The amendments to IAS 32 address inconsistencies in current practice when applying the requirements. The amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively. Management has not yet evaluated the impact on the financial statements.

IFRS 9 Financial Instruments:

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

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. Management has not yet evaluated the impact on the financial statements.

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. Management has not yet evaluated the impact on the financial statements.

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 July 1, 2012. The Company does not expect any material impact to the financial statements as a result of adopting this standard.

IFRS 10 Consolidated Financial Statements:

The new standard uses control as the single basis of consolidation for all entities with three elements to control: power over an investee; exposure or rights to variable returns; and the ability to affect returns. Retrospective application is required, subject to certain transitional provisions, effective January 1, 2013. Management has not yet evaluated the impact on the financial statements.

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. Management does not expect a material impact to the financial statements as a result of adopting this standard.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Incorporation of disclosure is permitted, without early adoption of IFRS 12, IFRS 10, IFRS 11, IAS 27 (as amended 2011) and IAS 28 (as amended 2011), effective January 1, 2013. Management does not expect a material impact to the financial statements as a result of adopting this standard.

IAS 27 (as amended 2011) Separate Financial Statements:

IAS 27 (2011) provides guidance on the accounting and disclosure requirements for subsidiaries, jointly controlled entities, and associates in separate, or unconsolidated, financial statements, effective January 1, 2013. Management does not expect a material impact to the financial statements as a result of adopting this standard.

IAS 28 (as amended 2011) Investments in Associates:

The amended IAS 28 (2011) provides detailed guidance on the application of the equity method to associates, subsidiaries and joint ventures (previously excluded from this standard), effective January 1, 2013. Management does not expect a material impact to the financial statements as a result of adopting this standard.

2.6 Fiscal periods

The Company's 2012 fiscal period is divided in quarters as follows:

	Period from January 2, 2012 to December 30, 2012 ("Fiscal 2012")		**Period from January 3, 2011 to January 1, 2012 ("Fiscal 2011")**	
	Period End Date	# of Weeks	Period End Date	# of Weeks
Quarter 1	April 1, 2012	13	April 3, 2011	13
Quarter 2	July 1, 2012	13	July 3, 2011	13
Quarter 3	September 30, 2012	13	October 2, 2011	13
Quarter 4	December 30, 2012	13	January 1, 2012	13
Fiscal year	December 30, 2012	52	January 1, 2012	52

3. ACCOUNTS RECEIVABLE

	April 1, 2012	January 1, 2012
Trade	$ 105,369	$ 111,047
Other	3,821	4,803
	$ 109,190	$ 115,850

4. INVENTORIES

	April 1, 2012	January 1, 2012
Raw materials	$ 48,627	$ 45,454
Work in process	39,073	46,340
Finished goods	4,852	1,697
	$ 92,552	$ 93,491

The cost of inventories recognized as expense and included in cost of sales amounted to $193,215 (2011 Q1: $174,149). During the 13-week period ended April 1, 2012 ("2012 Q1"), the Company had a write-down of inventory to net realizable value recorded in cost of sales of $358, and $109 for the 13-week period ended April 3, 2011 ("2011 Q1"). There were no reversals of a write-down in inventory in either of the related periods.

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

5. DEFERRED TAXES AND INCOME TAX EXPENSE

	April 1, 2012	January 1, 2012
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	$ 34,510	$ 33,416
Deferred tax asset to be recovered within 12 months	9,605	13,368
	44,115	46,784
Deferred tax liabilities:		
Deferred tax liability to be reversed after more than 12 months	(121,506)	(123,079)
Deferred tax liability to be reversed within 12 months	(6,766)	(6,235)
	(128,272)	(129,314)
Deferred taxes (net)	(84,157)	(82,530)

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

	April 1, 2012	January 1, 2012
As presented on statements of financial position:		
Deferred tax assets	$ 35,720	$ 36,558
Deferred tax liabilities	(119,877)	(119,088)
Deferred taxes (net)	(84,157)	(82,530)

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

	13-Weeks Ended April 1, 2012	13-Weeks Ended April 3, 2011
Beginning of period	$ (82,530)	$ (101,029)
Exchange differences	259	390
Tax recorded through net earnings	(115)	203
Tax recorded through other comprehensive loss	48	—
Tax recorded through equity	(1,819)	—
End of period	$ (84,157)	$ (100,435)

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	85	1,488	(531)	1,042
April 1, 2012	$ (706)	$ (127,131)	$ (435)	$ (128,272)

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

5. DEFERRED TAXES AND INCOME TAX EXPENSE (Continued)

Deferred tax assets		Provisions		Pension		Deferred Financing costs		Other		**Total**
January 1, 2012	$	15,220	$	3,435	$	8,138	$	19,991	$	46,784
Tax recovered (charged) through net earnings		(1,183)		260		(114)		(120)		(1,157)
Tax recovered through other comprehensive loss		—		48		—		—		48
Tax recovered through equity		—		—		(206)		(1,613)		(1,819)
Exchange differences		93		21		50		95		259
April 1, 2012	$	14,130	$	3,764	$	7,868	$	18,353	$	44,115

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 $386 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:

2013 to 2019 (includes U.S. federal tax losses that are restricted in application to $55 per year)	$	386

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

		13-Weeks Ended April 1, 2012		13-Weeks Ended April 3, 2011
Earnings (loss) before income tax expense	$	1,985	$	(3,724)
Tax calculated using a 35% U.S. tax rate		695		(1,304)
Tax effect of:				
Tax recorded through equity		(1,819)		—
Non-taxable income		—		(1,283)
Benefit of deductible share issue costs		—		(58)
Withholding and other taxes		(141)		561
Non-deductible expenses		528		401
Revision of tax estimates		(32)		—
Rate differential on income taxed at other than U.S. statutory rate		(678)		—
Foreign exchange impact		720		4,286
State taxes		51		25
Other		(66)		9
Income tax (recovered) expense for the period	$	(742)	$	2,637

		13-Weeks Ended April 1, 2012		13-Weeks Ended April 3, 2011
Current income taxes (recovered) for the period	$	(857)	$	2,840
Deferred income taxes (recovered) for the period		115		(203)
Income tax (recovered) expense for the period	$	(742)	$	2,637

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

6. LONG-TERM DEBT

	Final Maturity	Face Value	Unamortized Transaction Costs	Net Book Value April 1, 2012	**Net Book Value January 1, 2012**
Subordinated Notes included in the IDS issue (a)	2020	$ 31,391	$ 243	$ 31,148	$ 30,547
Separate Subordinated Notes (b)	2020	27,576	100	27,476	26,948
Term Credit Facility (c)	2014	111,000	1,547	109,453	109,340
Revolving Credit Facility (“Revolver”) (c)	2014	7,000	—	7,000	9,000
		176,967	1,890	175,077	175,835
Less: current portion of long-term debt (c)		7,000	—	7,000	9,000
		$ 169,967	$ 1,890	$ 168,077	$ 166,835

Other than the amount outstanding on the Revolver, there are no principal repayments required on long-term debt within the next five years except for the Term Credit Facility (as defined in (c) below) to be repaid in April 2014.

(a) C$31,313 (January 1, 2012: C$31,313) is the aggregate principal amount of 14% unsecured Subordinated Notes denominated in Canadian dollars held by third parties that mature August 2020. The Subordinated Notes are subordinated in right of payment to all existing and future senior indebtedness of NFI ULC and are senior in right of payment to any subordinated indebtedness of NFI ULC. The Subordinated Notes are an unsecured obligation of NFI ULC and are guaranteed by NFAI on an unsecured basis. Except for specific circumstances specified in the note indenture agreement, NFI ULC may not redeem the Subordinated Notes prior to August 19, 2012. On or after August 19, 2012, NFI ULC may redeem the Subordinated Notes at its option, at any time in whole and from time to time in part, upon not less than 30 nor more than 60 days’ notice to holders, for cash, at a redemption price (expressed as a percentage of principal amount) set forth below, plus accrued and unpaid interest on the Subordinated Notes redeemed to the applicable redemption date, if redeemed during the 52-week period beginning on August 19 during the years indicated below:

YEAR	**Percentage**
2012	105%
2013	104%
2014	103%
2015	102%
2016	101%
2017 and thereafter	100%

(b) NFI ULC has C$27,508 (January 1, 2012: C$27,508) of separate 14% Subordinated Notes outstanding that were issued under the same terms and conditions as the Subordinated Notes included in the issuance of IDSs (“Separate Subordinated Notes”). The holders of the Separate Subordinated Notes and the Subordinated Notes issued as part of the IDSs vote together as a single class in proportion to the aggregate principal amount of Subordinated Notes they hold on all matters on which they are eligible to vote under the indenture.

(c) On July 27, 2011, the Company entered into a second amended and restated credit agreement (the “Credit Facility”) with The Bank of Nova Scotia and Bank of Montreal, as co-lead arrangers and joint book runners, and a syndicate of leading Canadian and American financial institutions in the amount of $195.0 million and a $75.0 million accordion term loan feature. The Credit Facility matures on April 24, 2014 and consists of a $105.0 million term loan (the “Term Credit Facility”), which includes a $15.0 million delayed draw loan (of which $94.0 million was drawn at April 1, 2012) and a $75.0 million accordion term loan feature, under which $17.0 million was drawn at April 1, 2012. As well, there exists a $90.0 million revolver, which includes a $55.0 million letter of credit sub-facility (the “Revolver”) (of which $7.0 million was drawn at April 1, 2012). Loans under the Term Credit Facility bear interest at a rate equal to LIBOR or a U.S. base rate for loans denominated in U.S. dollars and a Canadian prime rate or bankers’ acceptance rate for loans denominated in Canadian dollars, plus an applicable margin to those rates. As at April 1, 2012, the Company was in compliance in all material respects with all applicable contractual obligations.

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

7. SHARE CAPITAL

Authorized			
Unlimited	Common Shares		
Issued		**April 1, 2012**	January 1, 2012
44,379,070	Common Shares (January 1, 2012: 44,379,070)	$ 476,918	$ 476,918

On September 30, 2011, shareholders approved the consolidation of the issued and outstanding Shares on the basis of one post-consolidation Share for every ten pre-consolidation Shares held. To reflect the 10:1 share consolidation under IAS 33 *Earnings Per Share*, a retrospective application is required in calculating the basic and diluted earnings per share using the weighted average number of shares outstanding for 2012 Q1 and 2011 Q1 of 44,379,070 and 4,947,423 respectively.

The dividends declared in 2012 Q1 and 2011 Q1 were $9,550 ($0.22 per Share) and $4,990 ($1.01 per Share) respectively. Dividends of $3,189 ($0.07 per Share) were proposed or declared after April 1, 2012 but prior to the Statements being authorized for issue. The Statements do not reflect this dividend payable.

8. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	**13-weeks Ended April 1, 2012**	13-weeks Ended April 3, 2011
Accounts receivable	$ 4,556	$ (49,840)
Income taxes recoverable	(1,272)	(2,402)
Inventories	939	(22,725)
Prepaid expenses and deposits	1,236	575
Accounts payable and accrued liabilities	3,180	45,521
Income taxes payable	(4,964)	—
Deferred revenue	(663)	(24,158)
Provision for warranty costs	(3,199)	(316)
Other	6,280	1,387
	$ 6,093	$ (51,958)

9. EMPLOYEE FUTURE BENEFITS

Defined benefit plan

The Company's subsidiary, NFI ULC, has a defined benefit plan which only covers unionized employees at the Winnipeg facility. On March 31, 2012 (amendment date) the Company signed a new collective bargaining agreement that included changes to this defined benefit plan. As a result of the plan changes, the accrued benefit liability was remeasured as of the amendment date and the Company changed the discount rate used from 5.25% to 4.90% to reflect the interest rate environment as of the amendment date. The effect of the plan amendment was to increase the accrued benefit liability and the expected annual pension plan expense for Fiscal 2012 by approximately $1,762. Net actuarial losses on defined benefit pension of $80 (net of income tax recovery of $48) were recorded in other comprehensive loss during 2012 Q1 (2011 Q1:$nil). Cumulatively, $4,931 (net of income tax recovery of $2,961) of actuarial losses has been recorded directly through deficit.

An actuarial valuation was last performed as at December 31, 2010. The next compulsory actuarial valuation as of December 31, 2011 will be completed later in 2012.

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

9. EMPLOYEE FUTURE BENEFITS (Continued)

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

	April 1, 2012	January 1, 2012
Change in plan assets		
Plan assets at fair value — beginning of period	$ 33,992	$ 29,679
Expected return on plan assets	615	2,212
Actuarial gains (losses)	457	(691)
Employer's contributions	1,671	4,870
Benefits paid	(346)	(1,283)
Foreign exchange	596	(795)
Plan assets at fair value — end of period	36,985	33,992
Change in defined benefit obligation		
Accrued benefit obligation — beginning of period	43,128	38,601
Current service cost	519	1,950
Interest cost	573	2,195
Benefits paid	(346)	(1,283)
Foreign exchange	776	(1,002)
Past service costs due to plan amendments	1,762	—
Actuarial loss	585	2,667
Defined benefit obligation — end of period	46,997	43,128
Accrued benefit liability - present value of unfunded obligations	$ (10,012)	$ (9,136)

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

	13-weeks Ended April 1, 2012	13-weeks Ended April 3, 2011
Current service costs	$ 519	$ 482
Interest cost on accrued benefit obligations	573	546
Expected return on plan assets	(615)	(549)
Past service costs due to plan amendments	1,762	—
Foreign exchange	—	(23)
Pension expense for the period	$ 2,239	$ 456

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:

	13-weeks Ended April 1, 2012	13-weeks Ended April 3, 2011
Defined contribution pension expense	$ 473	$ 517

Cash payments contributed by the Company during 2012 Q1 for its defined benefit and defined contribution pension plans amounted to $2,144 (2011 Q1: $1,650).

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10. DEFERRED COMPENSATION OBLIGATION

	April 1, 2012	January 1, 2012
Performance unit plan (officers and senior management)	$ 2,211	$ 1,666
Restricted share unit plan (officers and senior management)	95	—
Deferred share unit plan (non-employee board of directors)	23	—
	2,329	1,666
Less: current portion	1,501	1,404
	$ 828	$ 262

Effective January 1, 2012, the board of directors approved the NFI ULC Restricted Share Unit Plan (the "RSU Plan") which 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, subject to vesting.

The purposes of the performance unit plan ("PUP") and the RSU plan (collectively, the "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 Incentive Plans are 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. Under the terms of the Incentive Plans, the human resources, compensation and corporate governance committee may grant eligible participants each year unit grants thereunder 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. Units granted under the PUP 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 38% 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. RSUs will generally vest at the end of the third fiscal year following the date of grant. 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. Units shall also immediately vest upon the closing of a transaction resulting in certain change of control events and upon certain terminations of employment.

As well, the board of directors adopted NFI's Deferred Share Unit Plan for Non-Employee Directors effective January 1, 2012. Pursuant to the plan, non-management directors may elect 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 annual retainer 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. At the end of the director's tenure as a member of the board of directors, 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.

The Company recognizes compensation expense using the accrual method, based on the best available estimates of the outcome of the performance condition. The effect of a change in estimate is recognized in the period in which it occurs. For 2012 Q1, a compensation expense of $637 (2011 Q1: $371) was recorded in the interim condensed consolidated statements of net earnings (loss) and comprehensive income (loss).

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

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Financial Instruments

The Company has made the following classifications:

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

(b) Risk Management

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

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

During 2012 Q1, the Company recorded a realized foreign exchange loss of $186 (2011: $669 gain). This was comprised of $434 gain on settlement of foreign exchange contracts and a $620 foreign currency loss on translation of Canadian dollar denominated operations.

At April 1, 2012, the Company has foreign exchange forward contracts that range in expiry dates from April to May 2012, the related asset of $31 (January 1, 2012: $145) is recorded on the interim condensed consolidated statements of financial position as a current derivative financial instruments and the corresponding change in the fair value of the foreign exchange forward contracts has been recorded in the interim condensed consolidated statements of net earnings (loss) and comprehensive income (loss).

In connection with the Credit Facility, the Company has an interest rate swap designed to hedge floating rate exposure for the term of the Credit Facility on $90,000 out of the $111,000 drawn term loan. The interest rate swap fixes the interest rate at 1.90% plus the applicable interest margin until April 2014 (maturity date). The fair value of the interest rate swap liability at April 1, 2012 is $2,759 (January 1, 2012: $2,811) and the change in fair value has been recorded as finance costs for the reported period. The related liability has been recorded on the interim condensed consolidated statements of financial position as a derivative financial instruments liability.

An embedded derivative exists relating to the Company’s right to prepay the Subordinated Notes (discussed in note 6(a,b)). The fair value of the embedded derivative at April 1, 2012 is $2,357 (January 1, 2012: $3,684). The fair value of the embedded derivatives is adjusted at each reporting date and recorded as a fair value adjustment in the interim condensed consolidated statements of net earnings (loss) and comprehensive income (loss).

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

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) Liquidity Management

The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At April 1, 2012, the Company had a cash balance of $7,509 (January 1, 2012 $10,133) and the $90,000 Revolver. As at April 1, 2012, there was $7,000 of direct borrowings (January 1, 2012 $9,000) and $13,461 of outstanding letters of credits (January 1, 2012: $13,774) under the Revolver.

The Company's principal sources of funds are cash generated from its operating activities 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.

(d) Credit risk

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

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

	April 1, 2012	January 1, 2012
Current, including holdbacks	$ 97,259	$ 110,563
Past due amounts but not impaired		
1 – 60 days	4,372	2,671
Greater than 60 days	7,615	2,665
Less: Allowance for doubtful accounts	(56)	(49)
Total accounts receivables, net	$ 109,190	$ 115,850

As at April 1, 2012, there was no amount that would otherwise be past due or impaired whose terms have been renegotiated.

There are certain financial covenants under the Credit Facility that must be maintained. These financial covenants include a fixed charge coverage ratio, senior leverage ratio and total leverage ratio.

As at April 1, 2012, the Company is in compliance with the financial covenants in the Credit Facility. The results of the financial covenants tests as of such date are as follows:

	April 1, 2012	January 1, 2012
Senior Leverage Ratio (must be less than 2.50)	1.53	1.43
Total Leverage Ratio (must be less than 4.75)	2.32	2.15
Fixed Charge Coverage Ratio (must be greater than 1.10)	1.53	1.26

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

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

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12. SEGMENT INFORMATION

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

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

There is no inter-segment revenue. Unallocated items in the consolidated earnings before income taxes primarily include foreign exchange gains or losses, losses or gains on disposition of property, plant and equipment, depreciation of property, plant and equipment, amortization of intangible assets, interest expense and income, fair value adjustment to embedded derivatives, accretion in carrying value of long-term debt and gains and losses on the Company's interest rate swap. Corporate overhead costs are allocated fully to the Bus Operations segment. The Bus Operations segment has recorded vendor rebates of $668 (2011 Q1: $230), which have been recognized into earnings during 2012 Q1, but for which the full requirements for entitlement to these rebates have not yet been met.

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

Corporate assets that are shared by both operating segments are allocated fully to the Bus Operations segment.

Segment information about profits and assets is as follows:

	13-Weeks Ended April 1, 2012			
	Bus Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 196,233	$ 31,411	$ –	$ 227,644
Operating costs and expenses	187,760	25,666	–	213,426
Earnings (loss) before income tax expense	8,473	5,745	(12,233)	1,985
Total assets	375,013	98,185	383,812	857,010
Addition of capital expenditures	3,636	24	–	3,660
Goodwill	148,483	53,685	–	202,168

	13-Weeks Ended April 3, 2011			
	Bus Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 187,458	$ 26,886	$ –	$ 214,344
Operating costs and expenses	172,807	21,263	–	194,070
Earnings (loss) before income tax expense	14,651	5,623	(23,998)	(3,724)
Total assets	371,279	90,555	409,619	871,453
Addition of capital expenditures	947	76	–	1,023
Goodwill	148,483	53,685	–	202,168

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

13. COMMITMENTS AND CONTINGENCIES

(a) Through the normal course of operations, the Company has indemnified the surety companies providing surety bonds required under various contracts with customers. In the event that the Company fails to perform under a contract and the surety companies incur a cost on a surety bond, the Company is obligated to repay the costs incurred in relation to the claim up to the value of the bond. The Company's guarantee under each bond issued by the surety companies expires on completion of obligations under the customer contract to which the bond relates. The estimated maturity dates of the surety bonds outstanding at April 1, 2012 range from April 2012 to March 2013.

At April 1, 2012, outstanding surety bonds guaranteed by the Company totaled $42,292 (January 1, 2012: $32,042). The Company has not recorded any liability under these guarantees, as management believes that no material events of default exist under any contracts with customers.

(b) The Company has a letter of credit sub-facility of $55,000 as part of the $90,000 Revolver. As at April 1, 2012, letters of credit totaling $13,461 (January 1, 2012: $13,774) remain outstanding under the letter of credit facility.

As at April 1, 2012, management believes that the Company is in compliance in all material respects with all applicable contractual obligations and the Company has not provided for any costs associated with these letters of credit.

14. PROVISION FOR WARRANTY COSTS

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

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

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

		Total
January 1, 2012	$	32,808
Additions		3,669
Amounts used/realized		(7,097)
Unwinding of discount and effect of changes in the discount rate		113
Exchange differences		116
April 1, 2012	$	29,609