March 20, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS AND 52-WEEKS ENDED DECEMBER 30, 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 consolidated financial statements (including notes) (the "Financial Statements") for the 52-week period ended December 30, 2012 ("Fiscal 2012"). 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 Financial Statements. See "Forward-looking Statements". Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the factors described in the public filings of NFI available on SEDAR at www.sedar.com. The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and, except where otherwise indicated, are presented in U.S. dollars, representing the functional currency of NFI. Unless otherwise indicated, the financial information contained in this MD&A has been prepared in accordance with IFRS and references to "$" or "dollars" mean U.S. dollars.

MEANING OF CERTAIN REFERENCES

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

The common shares of NFI ("Shares") are traded on the Toronto Stock Exchange ("TSX") under the symbol "NFI" and NFI's 6.25% convertible unsecured subordinated debentures ("Debentures") are traded on the TSX under the symbol "NFI.DB.U". Additional information about NFI and the Company, including NFI's annual information form is available on SEDAR at www.sedar.com.

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

Forward-looking Statements

Certain statements in this MD&A are "forward-looking statements", which reflect the expectations of management regarding NFI's and the Company's future growth, results of operations, performance and business prospects and opportunities. The words "believes", "anticipates", "plans", "expects", "intends", "projects", "estimates" and similar expressions are intended to identify forward-looking statements. These forward-looking statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this MD&A. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not or the times at or by which such performance or results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements. Such differences may be caused by factors which include, but are not limited to, 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 product liability claims, changes in Canadian or United States tax legislation, the Company's success depends on a limited number of key executives who the Company may not be able to adequately replace in the event that they leave the Company, the absence of fixed term customer contracts and the termination of contracts by customers for convenience, the current U.S federal "Buy-America" legislation, certain states' U.S. content bidding preferences and certain Canadian content purchasing policies may change and/or become more onerous, production delays may result in liquidated damages under the Company's contracts with its customers, the Company's ability to execute its planned production targets as required for current business and operational needs, currency fluctuations could adversely affect the Company's financial results or competitive position in the industry, the Company may not be able to maintain performance bonds or letters of credit required by its existing contracts or obtain performance bonds and letters of credit required for new contracts, third party debt service obligations may have important consequences to the Company, the covenants contained in the Company's senior credit facility ("Credit Facility") and the indenture governing its Debentures could impact the ability of the Company to fund dividends and take certain other actions, interest rates could change substantially and materially impact the Company's profitability, the dependence on limited sources of supply, the timely supply of materials from suppliers, the possibility of fluctuations in the market prices of the pension plan investments and discount rates used in the actuarial calculations will impact pension expense and funding requirements, the Company's profitability and performance can be adversely affected by increases in raw material and component costs, the availability of labour could have an impact on production levels, battery-electric propulsion on transit buses is still largely unproven technology and there is no assurance that such technology will result in a product desired by customers, prototype buses must be tested and proven in operating conditions, a commercialized product must be marketed and sold to potential customers and there may be no significant demand for an all-electric bus from customers, the ability of the Company to successfully execute strategic plans and maintain profitability, risks related to acquisitions, joint ventures, and other strategic relationships with third parties and the ability to successfully integrate acquired businesses and assets into the Company's existing business and to generate accretive effects to income and cash flow as a result of integrating these acquired businesses and assets. NFI cautions that this list of factors is not exhaustive. These factors and other risks and uncertainties are discussed in NFI's press releases and materials filed with the Canadian securities regulatory authorities and are available on SEDAR at www.sedar.com.

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

DEFINITIONS OF EBITDA, ADJUSTED EBITDA AND FREE CASH FLOW

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

Management believes EBITDA, Adjusted EBITDA and Free Cash Flow (as defined below) are useful measures in evaluating the performance of NFI and/or the Company. "Free Cash Flow" means net cash generated by operating activities adjusted for changes in non-cash working capital items, interest paid, interest expense, income taxes paid, current income tax expense, effect of foreign currency rate on cash, defined benefit funding, 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 NFI's and/or the Company's performance or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. A reconciliation of net earnings and cash flow to EBITDA and Adjusted EBITDA, based on the Financial Statements, has been provided under the heading "Reconciliation of Net Earnings to EBITDA and Adjusted EBITDA" and "Reconciliation of Cash Flow to EBITDA and Adjusted EBITDA", respectively. A reconciliation of Free Cash Flow to cash flows from operations is provided under the heading "Summary of Free Cash Flow".

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

Business Overview

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

Industry Overview

Heavy-Duty Transit market

On June 29, 2012, U.S. Congress approved a two-year transportation bill named "Moving Ahead for Progress in the 21st Century Act" (MAP-21/H.R 4348) continuing federal public transportation funding at current funding levels plus inflation for two fiscal years. The U.S. state and local budgets have been challenged, however there have been some positive signs recently. According to the Nelson Rockefeller Institute, the data alert issued by the Rockefeller Institute on December 13, 2012 regarding U.S. state tax collections shows an increase in the third quarter of 2012 for the 11th consecutive quarter, with a reported 2.1% increase over the prior year. Overall state tax revenues have recovered to pre-recession levels. Although these budgets are driven by tax revenue, there is typically a lag before any improved economic activity translates into new bus orders.

Recent Ridership Trends

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

Demand for Heavy-Duty Transit Buses

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

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

Equivalent Units	Bids in Process	Bids Submitted	Expected Future Industry Procurement over 5 Years(1)	**Total**
2010 Q4	1,089	2,027	9,501	12,617
2011 Q4	1,848	2,186	9,266	13,300
2012 Q4	4,214	4,626	10,613	19,453

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

Procurement activity has increased significantly throughout Fiscal 2012, as evidenced by the total bid universe as at December 30, 2012 which totals 19,453 EUs, representing an increase of 46% compared to the bid universe at January 1, 2012. This increase is a result of expected solicitations being released in the period by some large transit agencies seeking replacement and expansion buses, but not yet been awarded. The bid universe at December 30, 2012 is at its highest level since New Flyer began tracking it in 2008.

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

Aftermarket Parts

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

Gross orders received by New Flyer's aftermarket business during the 13-week period ended December 30, 2012 ("2012 Q4") for core parts sales increased 1.0% compared to 2011 Q4. Full year 2012 gross orders were $118.6 million, an increase of 3.7% compared to full year 2011.

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

New Flyer's aftermarket parts and service segment has grown annually by 7.7% over the last five years, even with a slight contraction of the aftermarket parts sector in the 52-week period ended January 1, 2012 ("Fiscal 2011"), as transit systems began purchasing parts as needed rather than for inventory, primarily due to decreases in operating budgets.

As a result of the Company's increase of aftermarket sales in Fiscal 2012 compared to Fiscal 2011 management believes that New Flyer's aftermarket parts grew its market share from 17% to approximately 18%.

Year in Review

Fiscal 2012 started out as another challenging year due to the U.S. economy; however there were signs of improvement as the bid activity and the Company's order activity began to rise sharply in the latter half of the year. Despite the tight economic environment, management was able to complete a number of strategic transactions that were critical to achieving the objective of continued long-term growth and diversification.

Highlights

- ❖ March, 2012 - New Flyer and the Canadian Auto Workers (Winnipeg) sign a new 3 year collective bargaining agreement.
- ❖ May, 2012 – New Flyer and Alexander Dennis Limited enter into a joint arrangement to introduce the MiDi™, the Company's first mid-sized transit bus.
- ❖ June, 2012 – New Flyer issues $65.0 million of convertible debentures to finance repurchase of existing 14% Subordinated Notes.
- ❖ August, 2012 - New Flyer completes redemption of 14% Subordinated Notes.
- ❖ Dec. 31, 2012 - New Flyer obtains worldwide license to sell brake technology under New Flyer's Xtended Life™ brand.
- ❖ January, 2013 - Marcopolo S.A. commits to C$116.0 million strategic investment in New Flyer.
- ❖ March 1, 2013 - New Flyer acquires aftermarket parts business from Daimler Buses North America for approximately $26.5 million

Order activity during 2012 Q4 and Fiscal 2012

The new orders (firm and options) for 2012 Q4 totaled 1,055 EUs, which represents the highest level of order intake by New Flyer in a quarter since the fourth quarter of 2008. These orders included:

- 407 EUs of new firm orders during 2012 Q4 with a total value of $191.6 million, a significant increase compared to firm orders of just 9 EUs valued at $3.8 million in 2011 Q4.
- 648 EUs of new options in 2012 Q4 worth $273.1 million, compared to no new options awarded in 2011 Q4.

In addition, New Flyer was successful at converting options for 190 EUs with a total value of $74.6 million in 2012 Q4, as compared to 152 EUs with a total value of $64.4 million converted in 2011 Q4.

As well, firm and option orders of an additional 630 new buses (801 EUs) for New Flyer were pending at the end of 2012 Q4; approval had been granted by the customer's board, council, or commission, as applicable, but purchase documentation had not been received by the Company prior to December 30, 2012 and therefore these orders were not included in the 2012 Q4 backlog. Management anticipates that it will receive notices to proceed (each an "NTP") for all 801 EUs.

In addition to these pending orders, the Company was advised by Los Angeles County Metropolitan Transportation Authority ("Metro") that it has been awarded a contract for up to 900 EUs of Xcelsior™ 40-foot heavy-duty compressed natural gas ("CNG") buses. The five-year contract contains a firm order for 550 EUs and options for up to an additional 350 EUs. This build will be the first time New Flyer has built for Metro in over ten years and the first time the New Flyer Xcelsior™ will be introduced into Metro's active transit fleet of over 2,200 buses. These buses were also not included in the 2012 Q4 backlog.

The Company has been successful at securing the assignment of two Orion contracts due to DBNA's decision to exit the U.S. and Canadian bus business. The first contract assigned by DBNA in 2012 was for MTA New York City Transit and was included in the total backlog. The second contract assigned by DBNA was for Seattle King County Metro Transit and was announced in February 2013. Therefore, this second contract was not included in the December 30, 2012 backlog.

The total backlog at the end of 2012 Q4 was 6,325 EUs, an increase of 1.9% from the backlog at the end of the 13-week period ended September 30, 2012 ("2012 Q3"). The firm portion of the total backlog at the end of 2012 Q4 was 1,672 EUs, compared with 1,462 EUs at the end of 2012 Q3. The value of the order backlog at the end of 2012 Q4 was $2.7 billion, compared with $2.6 billion at the end of 2011 Q3. This increase in total backlog was not unexpected, nor inconsistent with current market conditions or management's expectations. New Flyer's current backlog includes orders for clean propulsion vehicles representing approximately 61% of the total.

Deliveries in 2012 Q4 were 387 EUs, an improvement of 1 EU from 2012 Q3. Fiscal 2012 deliveries of 1,656 EUs have decreased from the 1,811 EUs delivered during the prior year. The reduced deliveries were caused by a delay in receiving the NTP for an order of 90 Xcelsior™ 60-foot articulated buses (180 EUs) in 2012 Q3 and approximately 30 EUs relating to late completions due to a supplier quality issue which has been rectified.

2013 Outlook

Management estimates that heavy-duty bus manufacturers delivered approximately 5,100 EUs in 2012. The number of industry deliveries was relatively flat compared to the total number of deliveries in 2011 and is the approximate median point over the last 15 years (which has ranged from 4,000 EUs to 6,000 EUs). New Flyer's market share in Canada and the United States for 2012 was approximately 32%, a decrease of 3% from its estimated market share of 35% for 2011. Management anticipates that the Company's market share should increase for 2013 as the total market size for both bus deliveries and parts are estimated to increase slightly and as a result of the Company's recent successes with large bus procurements and the assignment of remaining Orion bus sales contracts. As well, as a result of the strategic investment and working relationship that has been recently established with Marcopolo, management has begun to explore activities that will expand the Company's market share through sourcing of new products for the North American transit bus market, cost reduction opportunities and possible further business acquisitions aimed at achieving the Company's goal for diversification and growth, such as the acquisition of the Orion aftermarket parts business on March 1, 2013, which management expects will increase its market share in the aftermarket segment.

New Flyer plans for its average manufacturing line entry rate in Fiscal 2013 to average approximately 36 EUs per production week. Management estimates that the level of work in process inventory ("WIP") at the reporting periods will range between approximately 200 to 230 EUs, and sufficient Free Cash Flow will be generated to maintain the current dividend rate.

On February 20, 2013, New Flyer was awarded the 2013 Manufacturing Leadership 100 Award in the category of operational excellence from Manufacturing Executive magazine. Management plans to build on this recent success and continue its pursuit of operational excellence ("OpEx") to further reduce the direct cost of bus manufacturing, decrease WIP levels and to reduce overhead to allow for better cost competitiveness. OpEx also helps to mitigate the increased risk of production "issues" that could result from smaller order sizes. The average EU per sales contract has decreased from 20 EUs in Fiscal 2011 to an estimate of 17 EUs in the 52-week period ended December 29, 2013 ("Fiscal 2013").

The collective agreement governing St. Cloud's production union employees expires on March 31, 2013. The Company and the union leadership representing these production unit employees are currently negotiating a new collective agreement.

New Flyer is committed to continue as the leading market player. Management remains committed to its product development and optimization plan to fully migrate to the Xcelsior™ next generation bus platform and introduce the MiDi™ transit bus. Further, the Company will maintain its approach to selling parts and service solutions, such as New Flyer Connect™ analytics technology, e-learning training and the launch of Xtended Life™ products, designed to extend life and reduce maintenance costs for transit customers.

With the growth of the core aftermarket parts business, the launch of vendor-managed inventory programs, the recent win of the Chicago mid-life overhaul parts program, and the acquisition of the Orion parts business, the Company is now applying many of OpEx and process redesign techniques to the aftermarket business. The Company is also conducting a thorough review of all processes and information technology systems to ensure optimum performance and working capital utilization.

Fiscal 2012 and Fourth Quarter Financial Results

The Company achieved consolidated revenue for 2012 Q4 of $209.9 million, a decrease of 18.3% from the consolidated revenue for 2011 Q4 of $256.9 million, and the consolidated revenue for Fiscal 2012 of $872.9 million decreased 5.8% from the consolidated revenue for Fiscal 2011 of $926.4 million.

Revenue from bus manufacturing operations for 2012 Q4 was $180.9 million, which decreased 20.5% from $227.5 million in 2011 Q4, and revenue of $753.9 million for Fiscal 2012 decreased 7.0% from $810.4 million for Fiscal 2011. The decrease in 2012 Q4 revenue primarily resulted from a decrease in deliveries and a decrease in the average bus selling price during 2012 Q4 compared to 2011 Q4. The decrease in average bus selling price is attributed to a mix of products sold with a lower selling price. Total bus deliveries of 387 EUs in

2012 Q4 decreased 17.7% when compared to 2011 Q4 deliveries of 470 EUs. The reduced deliveries were caused by a temporary delay in receiving an NTP for 180 EUs and a supplier quality issue which has been subsequently rectified. This resulted in WIP at the end of 2012 Q4 totaling 225 EUs, or 42 EUs more than at the end of 2012 Q3. This is the first time WIP has exceeded 200 EUs at a quarter-end date since 2011 Q3.

The decrease in revenue from bus manufacturing operations for Fiscal 2012 primarily resulted from fewer deliveries in Fiscal 2012 compared to Fiscal 2011 offset by an increase in the average bus selling price during Fiscal 2012. Bus deliveries in Fiscal 2012 totaled 1,656 EUs representing a decrease of 8.6% as compared to 1,811 EUs in Fiscal 2011 primarily resulting from lower production volume when comparing the respective periods and a temporary increase in year-end WIP. The average selling price of $455.2 thousand per EU during Fiscal 2012 increased 1.7% from the average price per EU of $447.5 thousand during Fiscal 2011. This increase in average selling price is the result of changes in the product sales mix, which included more sales of hybrid buses and fewer articulated buses.

The revenue from aftermarket operations in 2012 Q4 was $28.9 million compared to $29.4 million in 2011 Q4, which represents an decrease of 1.6%, while the aftermarket operations revenue in Fiscal 2012 of $119.1 million increased 2.6% compared to $116.0 million in Fiscal 2011. The increase in Fiscal 2012 aftermarket operations revenue is primarily a result of increased volumes of $6.0 million offset somewhat by $2.6 million of decreased used bus sales, which management does not expect to continue in the future.

Consolidated Adjusted EBITDA for 2012 Q4 totaled $14.5 million compared to $15.9 million in 2011 Q4 which represents a decrease of 8.8%. The decrease in 2012 Q4 consolidated Adjusted EBITDA is primarily due to a temporary delay in year-end bus deliveries and a decrease in aftermarket earnings, offset somewhat by realized foreign exchange gains and a more favourable sales mix. Profit margins can vary significantly between orders due to factors such as pricing pressure, order size and product type. Adjusted EBITDA from bus manufacturing operations per EU can be volatile on a quarterly basis and therefore, management believes that a longer term view should be taken when comparing bus manufacturing operations margins. 2012 Q4 bus manufacturing operations Adjusted EBITDA of $10.2 million (5.6% of revenue) decreased by 5.7% compared to bus manufacturing operations Adjusted EBITDA of $10.8 million (4.7% of revenue) in 2011 Q4. 2012 Q4 aftermarket operations Adjusted EBITDA of $4.3 million (14.8% of revenue) decreased by 15.5% compared to $5.1 million (17.2% of revenue) in 2011 Q4, primarily due to lower profit margins.

Fiscal 2012 consolidated Adjusted EBITDA of $61.6 million decreased 23.1% compared to Fiscal 2011 consolidated Adjusted EBITDA of $80.1 million due to a number of factors, including: reduced deliveries due to lower production rates and lower margins from competitive pricing pressures, which were partially offset by the positive impact of cost reductions and productivity gains resulting from OpEx activities and cost-cutting measures. Bus manufacturing operations Adjusted EBITDA of $42.0 million for Fiscal 2012 decreased 25.8% compared to $56.6 million for Fiscal 2011 bus manufacturing operations Adjusted EBITDA. This decrease of $14.6 million is primarily a result of $7.3 million due to decreased volume of bus sales (8.6% decrease in deliveries) and $8.2 million due to a decrease in ITCs realized. The ITCs are related to qualified alternative fuel motor vehicles previously delivered, were not utilized in Fiscal 2012 but management still expects the remaining $23.3 million to be realized over the next three years. Aftermarket operations Adjusted EBITDA for Fiscal 2012 of $19.6 million represents a decrease of 16.6% over Fiscal 2011 aftermarket operations Adjusted EBITDA of $23.5 million primarily as a result of margin pressure in the industry offset by increased sales volumes within the current period.

The Company reported net earnings of $3.9 million in 2012 Q4 compared to net earnings of $15.6 million in 2011 Q4. The decrease in net earnings in 2012 Q4 is primarily attributable to the decrease in earnings from operations primarily as a result of recognizing a decreased amount of $29.3 million of ITCs in 2011 Q4 which resulted in a corresponding decrease in income taxes when comparing the two periods. Similarly, net earnings of $9.8 million in Fiscal 2012 decreased compared to the $15.9 million net earnings in Fiscal 2011 primarily as a result of recognizing a decreased amount of ITCs offset by $26.8 million of decreased finance costs and $6.5 million in decreased income tax expense. The reason for the relatively large decrease in current income taxes is primarily a result of a one-time income tax charge associated with recording ITCs in Fiscal 2011. The Company's net earnings can be subject to a high degree of volatility from one fiscal period to the next as a result of non-cash and non-recurring charges and income taxes.

The Company generated Free Cash Flow of C$7.5 million during 2012 Q4 while declaring dividends of C$6.5 million as compared to negative Free Cash Flow of C$(3.2) million during 2011 Q4 while declaring dividends of C$9.5 million. The primary reason for the negative Free Cash Flow in 2011 Q4 is as a result of a $6.8 million one-time tax expense on the realization of the ITC pool. During Fiscal 2012, New Flyer generated Free Cash Flow of C$27.8 million and declared dividends of C$33.1 million. In comparison, Fiscal 2011 Free Cash Flow and declared dividends were C$7.8 million and C$26.0 million, respectively. Free Cash Flow was negatively impacted by the one-time income tax charge of $13.4 million (C$13.1 million) that occurred in 2011 Q3 and as a result of a $6.8 million one-time tax expense on the realization of the ITC pool in 2011 Q4. The benefit of the $23.3 million of unused ITCs is expected to be realized as cash inflows in the future.

During 2012 Q4, the Company increased its cash by $8.1 million primarily due to increased draws on the bank revolving credit which offset the increased investment in non-cash working capital items, such as increased inventories and particularly WIP levels which have increased by 42 EUs from levels in 2012 Q3. During Fiscal 2012 the Company increased its cash by $1.0 million.

The liquidity position as at December 30, 2012 of $47.0 million is comprised of cash of $11.2 million and $35.8 million of available secured revolving credit facility. As at December 30, 2012, there were $40.0 million of direct borrowings and $14.2 million of outstanding letters of credits related to the $90.0 million of secured revolving credit. Management believes that these funds will provide the Company with sufficient liquidity and capital resources to meet its current and future financial obligations as they come due, as well as provide funds for its financing requirements, capital expenditures and other needs for the foreseeable future.

SELECTED FINANCIAL AND OPERATING INFORMATION

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

QUARTERLY AND ANNUAL FINANCIAL INFORMATION

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

Fiscal Period	Quarter	Revenue	Earnings from Operations	Net earnings (loss)*	EBITDA[1]	Adjusted EBITDA[1]	Earnings (loss) per share*[3]
2012*	Q4	$ 209,870	$ 7,725	$ 3,929	$ 14,061	$ 14,451	$ 0.09
	Q3	208,421	7,820	1,523	13,889	14,072	0.03
	Q2	226,980	10,686	3,398	11,055	16,366	0.08
	Q1	227,644	8,010	908	14,032	16,686	0.02
	Total	**$ 872,915**	**$ 34,241**	**$ 9,758**	**$ 53,037**	**$ 61,575**	**$ 0.22**
2011*	Q4	$ 256,918	$ 30,063	$ 15,632	$ 35,214	$ 15,855	$ 0.35
	Q3	229,308	15,764	13,997	18,228	22,206	0.57
	Q2	225,853	12,811	(7,319)	18,765	20,037	(1.48)
	Q1	214,344	14,991	(6,361)	20,943	21,989	(1.29)
	Total	**$ 926,423**	**$ 73,629**	**$ 15,949**	**$ 93,150**	**$ 80,087**	**$ 0.81**
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	Q4	183	429	387	225	217	8
	Q3	187	382	386	183	178	5
	Q2	175	453	441	187	167	20
	Q1	189	428	442	175	163	12
	Total	**189**	**1,692**	**1,656**	**225**	**217**	**8**
2011	Q4	238	421	470	189	185	4
	Q3	236	444	442	238	233	5
	Q2	218	449	431	236	224	12
	Q1	209	477	468	218	200	18
	Total	**209**	**1,791**	**1,811**	**189**	**185**	**4**
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**

(*) Net earnings and earnings per share for Fiscal 2011 have been restated to reclassify the previous recording of the benefit associated with utilizing loss carry forwards and deducting historical share issuance costs as a reduction of current income taxes. This correction did not have an impact on Fiscal 2011 assets, liabilities or ending deficit of the Company. However, as a result of this correction, net earnings for Fiscal 2011 decreased from $19,197 to $15,949 and earnings per share decreased from $0.98 to $0.81. For details, see footnote 10 on page 15 of this MD&A and Note 7 of the Financial Statements.

COMPARISON OF 2012 AND 2011 ANNUAL AND FOURTH QUARTER RESULTS

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

	13-Weeks Ended December 30, 2012	13-Weeks Ended January 1, 2012 (*restated)	**52-weeks Ended December 30, 2012**	52-weeks Ended January 1, 2012 (*restated)
Statement of Earnings Data				
Revenue				
Canada	$ 13,490	$ 30,195	$ 122,372	$ 173,858
U.S.	167,437	197,295	631,493	636,559
Bus manufacturing operations	180,927	227,490	753,865	810,417
Canada	8,789	8,810	37,189	37,291
U.S.	20,154	20,618	81,861	78,715
Aftermarket operations	28,943	29,428	119,050	116,006
Total revenue	$ 209,870	$ 256,918	$ 872,915	$ 926,423
Earnings from operations	$ 7,725	$ 30,063	$ 34,241	$ 73,629
Earnings before finance costs and income taxes	7,469	31,863	25,913	68,654
Net earnings	3,929	15,632	9,758	15,949
EBITDA(1)	14,061	35,214	53,037	93,150
Adjusted EBITDA(1)				
Bus manufacturing operations including realized foreign exchange losses/gains	10,163	10,779	41,998	56,612
Aftermarket operations	4,288	5,076	19,577	23,475
Total Adjusted EBITDA(1)	$ 14,451	$ 15,855	$ 61,575	$ 80,087
Other Data (unaudited)				
Canada	33	70	292	455
U.S.	354	400	1,364	1,356
Total deliveries (equivalent units)(2)	387	470	1,656	1,811
Total capital expenditures	$ 3,286	$ 3,167	$ 12,856	$ 8,689
New options awarded	$ 272,529	$ 4,429	$ 310,307	$ 209,747
New firm orders awarded	$ 192,672	$ 6,284	$ 392,887	$ 86,650
Exercised options	74,613	64,389	430,060	525,728
Total firm orders	$ 267,285	$ 70,673	$ 822,947	$ 612,378

(*) See Footnote 10 on page 15 of this MD&A and Note 7 to the Financial Statements

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

(Unaudited, US dollars in thousands)	**December 30, 2012**		January 1, 2012		January 2, 2011	
Selected Balance Sheet Data						
Total assets	$ 897,224		$ 870,462		$ 848,933	
Long-term financial liabilities	314,450		300,234		549,865	
Other Data (unaudited)		Equivalent Units[2]		Equivalent Units[2]		Equivalent Units[2]
Firm orders - USA	$ 676,266	1,525	$ 585,517	1,305	$ 694,141	1,518
Firm orders – Canada	64,578	147	72,390	171	138,517	379
Total firm orders	740,844	1,672	657,907	1,476	832,658	1,897
Options – USA	1,787,685	4,320	2,204,229	5,286	2,761,784	6,610
Options - Canada	145,090	333	139,275	335	83,713	205
Total options	1,932,775	4,653	2,343,504	5,621	2,845,497	6,815
Total Backlog	$ 2,673,619	6,325	$ 3,001,411	7,097	$ 3,678,155	8,712

Equivalent Units in Backlog (unaudited)	**52 Weeks Ended December 30, 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	882	738	182	477	1,013	914
Options exercised	970	(970)	1,208	(1,208)	825	(825)
Shipments	(1,656)	—	(1,811)	—	(2,023)	—
Cancelled/expired	—	(736)	—	(463)	—	(182)
End of period	1,672[5]	4,653[6]	1,476	5,621	1,897	6,815

In 2012 Q4 a total of 549 option EUs expired, 547 EUs of which related to the expiration of a five-year contract with one U.S. based customer whose fleet plan required no additional buses of the type specified in the expiring contract. The maximum term for a contract permitted by the US Federal Transit Administration (the "FTA") is five years. This customer has recently issued a request for proposals for a subsequent five-year contract for buses.

At the beginning of Fiscal 2012 the backlog included options for 1,693 EUs that would have expired in 2012 if not exercised. The actual number of options that expired in Fiscal 2012 was 736 EUs, the remaining options either being exercised by customers or extended to future years. Remaining options included in the total backlog will expire, if not exercised, as follows:

2013 Q1	332
2013 Q2	539
2013 Q3	479
2013 Q4	1,796[6]
2013	3,146[6]
2014	423
2015	503
2016	41
2017	540
Total options	4,653[6]

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

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

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

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

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

RECONCILIATION OF NET EARNINGS TO EBITDA AND ADJUSTED EBITDA

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

(Unaudited, US dollars in thousands)	**13-Weeks Ended December 30, 2012**	13-Weeks Ended January 1, 2012 (*restated)	**52-weeks Ended December 30, 2012**	52-weeks Ended January 1, 2012 (*restated)
Net earnings	$ 3,929	$ 15,632	$ 9,758	$ 15,949
Addback[(1)]				
Income taxes	205	11,254	1,005	10,739
Interest expense	3,335	4,977	15,150	41,966
Amortization	6,336	6,308	24,326	24,243
Loss on disposal of property, plant and equipment	—	35	—	35
Fair value adjustment to embedded derivatives	—	(1,310)	1,395	1,153
Unrealized foreign exchange loss (gain) on non-current monetary items and forward foreign exchange contracts	256	(1,682)	1,403	(935)
EBITDA[(2)]	14,061	35,214	53,037	93,150
Costs associated with assessing strategic and corporate initiatives[(7)]	390	14	742	2,745
Loss on exercise of redemption right[(5)]	—	—	5,530	—
Loss on debt repurchase[(6)]	—	1,157	—	4,722
Past service pension costs [(3)]	—	—	1,762	—
Realized (unrealized) investment tax credits[(8)]	—	(20,530)	504	(20,530)
Adjusted EBITDA[(2)]	$ 14,451	$ 15,855	$ 61,575	$ 80,087

RECONCILIATION OF CASH FLOW TO EBITDA AND ADJUSTED EBITDA

(Unaudited, US dollars in thousands)	**13-Weeks Ended December 30, 2012**	13-Weeks Ended January 1, 2012	**52-weeks Ended December 30, 2012**	52-weeks Ended January 1, 2012
Net cash (used) generated by operating activities	$ (4,842)	$ (11,124)	$ 5,523	$ (38,470)
Addback[1]				
Changes in non-cash working capital items	12,005	19,532	24,003	62,136
Defined benefit funding	3,307	1,110	7,336	4,870
Defined benefit expense	(438)	(452)	(3,554)	(1,821)
Interest paid	4,567	5,791	17,073	43,425
Loss on exercise of redemption right	—	—	(5,530)	—
Loss on debt repurchase	—	(1,157)	—	(4,722)
Realized (unrealized) investment tax credits	—	20,530	(504)	20,530
Foreign exchange (loss) gain on cash held in foreign currency	(33)	492	2,150	2,074
Income taxes paid (recovered)[4]	(505)	492	6,540	5,128
EBITDA[2]	14,061	35,214	53,037	93,150
Costs associated with assessing strategic and corporate initiatives[7]	390	14	742	2,745
Loss on exercise of redemption right[5]	—	—	5,530	—
Loss on debt repurchase[6]	—	1,157	—	4,722
Past service pension costs [3]	—	—	1,762	—
Realized (unrealized) investment tax credits[8]	—	(20,530)	504	(20,530)
Adjusted EBITDA[2]	$ 14,451	$ 15,855	$ 61,575	$ 80,087

(*) See Footnote 10 on page 15 of this MD&A and Note 7 to the Financial Statements

Notes:

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

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

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

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

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

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

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

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

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.

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 December 30, 2012**		13-Weeks Ended January 1, 2012 (restated) [10]		**52-weeks Ended December 30, 2012**		52-weeks Ended January 1, 2012 (restated) [10]
Net cash (used) generated by operating activities	$	(4,842)	$	(11,124)	$	5,523	$	(38,470)
Changes in non-cash working capital items[3]		12,005		19,532		24,003		62,136
Interest paid[3]		4,567		5,791		17,073		43,425
Interest expense[3]		(2,895)		(5,152)		(14,553)		(40,751)
Income taxes paid (recovered)[3]		(505)		492		6,540		5,128
Current income tax expense[3,10]		(2,875)		(12,462)		(12,809)		(24,895)
Principal portion of finance lease payments		(562)		(664)		(2,418)		(2,732)
Cash capital expenditures [9]		(606)		(708)		(3,955)		(3,684)
Proceeds from sale of redundant assets		—		35		—		35
Past service costs [6]		—		—		1,762		—
Costs associated with assessing strategic and corporate initiatives[8]		390		14		742		2,745
Defined benefit funding[4]		3,307		1,110		7,336		4,870
Defined benefit expense[4]		(438)		(452)		(3,554)		(1,821)
Foreign exchange gain on cash held in foreign currency[5]		(33)		492		2,150		2,074
Free Cash Flow (US$)[1]		7,513		(3,096)		27,840		8,060
U.S. exchange rate[2]		0.9965		1.0188		0.9997		0.9733
Free Cash Flow[1] (C$)		**7,487**		**(3,154)**		**27,832**		**7,845**
Free Cash Flow per Share (C$)[7]		0.1687		(0.0711)		0.6272		0.3986
Declared dividends on Shares (C$)		**6,490**		**9,542**		**33,081**		**26,048**
Declared dividend per Share (C$)[7]	$	0.1462	$	0.2150	$	0.7454	$	1.3236

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

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

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

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

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

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

(7) Per Share calculations for Free Cash Flow (C$) and declared dividends (C$) are determined by dividing these amounts by the total of all issued and outstanding Shares using the weighted average over the period. The weighted average number of Shares outstanding for 2012 Q4, Fiscal 2012 and 2011 Q4 were all 44,379,070. The weighted average number of Shares outstanding for Fiscal 2011 was 19,680,192.

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

(9) The Company has borrowed from its delayed draw portion of the Credit Facility. Proceeds from the loan were used to purchase profit margin improving capital assets in both Fiscal 2012 and Fiscal 2011 and thus had a positive impact on cash capital expenditures.

(10) Current income taxes have been restated to correct the previous recording of the benefit associated with utilizing loss carry forwards and deducting historical share issuance costs as a reduction of current income taxes. For more details see Note 7 of the Financial Statements. The following adjustments have been recorded:

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

Dividend Policy

It is the Company's board of director's (the "Board") 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.

On August 8, 2012, the Board set a new annual dividend rate of C$0.585 per Share effective for all dividends declared after August 20, 2012. The Board expects to maintain these dividends on a monthly basis although such distributions are not assured indefinitely.

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

Currency Impact on the Company's Reported Results

The Financial Statements are presented in U.S. dollars. New Flyer operates in both the United States and Canada and, as a result, its combined reported results are impacted by fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar. However, the impact of changes in foreign exchange rates on the Company's reported results differs over time depending on whether the Company is generating a net cash inflow or outflow of Canadian dollars. This is largely dependent on the Company's revenue mix by currency as operating costs denominated in Canadian dollars have been relatively stable. During Fiscal 2012, the Company generated a net outflow of Canadian dollars; as such, the Company's Adjusted EBITDA was negatively affected by a stronger Canadian dollar compared to the United States dollar. For that reason, management's strategy is to mitigate foreign currency exposure based on net cash flow rather than Adjusted EBITDA.

As at December 30, 2012, 8.7% (2011: 11.0%) of the Company's firm order backlog consisted of orders representing Canadian dollar-denominated revenue. Based on this current backlog position, the production schedule and the Company's historically stable Canadian dollar-denominated operating costs, management expects the Company to generate a net Canadian dollar net liability position in Fiscal

2013. The Company managed the Canadian dollar net position during Fiscal 2012 by purchasing $109.0 million of Canadian dollars (30 forward contracts) and selling $108.0 million of Canadian dollars (48 forward contracts).

The settlements of the forward contracts were recorded as realized foreign exchange gains or losses in net earnings for the reported periods as the Company has elected not to use hedge accounting. During Fiscal 2012, the Company recorded realized foreign exchange gains of $2.8 million (2011: $0.2 million). This was comprised of $1.1 million foreign currency gain on translation of Canadian dollar denominated operations and dividends and a $1.7 million gain on settlement of foreign exchange contracts on settlement.

At December 30, 2012, the Company had $5.0 million foreign exchange forward contracts to buy Canadian dollars that expired in January 2013, the related liability of $0.01 million (2011: $0.1 million asset) is recorded on the consolidated statements of financial position as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts has been recorded in the consolidated statements of profit or loss and other comprehensive income.

Fiscal and Interim Periods

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

	Period from 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.

(U.S. dollars in thousands)	**2012 Q4 (13-Weeks)**	2011 Q4 (13-Weeks) (*restated)	**Fiscal 2012 (52-Weeks)**	Fiscal 2011 (52-Weeks) (*restated)
Bus Manufacturing Revenue	$ 180,927	$ 227,490	$ 753,865	$ 810,417
Aftermarket Revenue	28,943	29,428	119,050	116,006
Total Revenue	$ 209,870	$ 256,918	$ 872,915	$ 926,423
Earnings from operations	7,725	30,063	34,241	73,629
Earnings before finance costs and income taxes	7,469	31,863	25,913	68,654
Earnings before income taxes	4,134	26,886	10,763	26,688
Net earnings for the period	3,929	15,632	9,758	15,949

(*) See Footnote 10 on page 15 of this MD&A and Note 7 to the Financial Statements

Revenue

The consolidated revenue for 2012 Q4 of $209.9 million decreased 18.3% from the consolidated revenue for 2011 Q4 of $256.9 million, and the consolidated revenue for Fiscal 2012 of $872.9 million decreased 5.8% from the consolidated revenue for Fiscal 2011 of $926.4 million.

Revenue from bus manufacturing operations for 2012 Q4 was $180.9 million, which decreased 20.5% from $227.5 million in 2011 Q4, and revenue of $753.9 million for Fiscal 2012 decreased 7.0% from $810.4 million for Fiscal 2011. The decrease in 2012 Q4 revenue primarily resulted from a decrease in deliveries and a decrease in the average bus selling price during 2012 Q4 compared to 2011 Q4. The decrease in average bus selling price is attributed to a mix of products sold with a lower selling price. Total bus deliveries of 387 EUs in 2012 Q4 decreased 17.7% when compared to 2011 Q4 deliveries of 470 EUs. The reduced deliveries were caused by a temporary delay in receiving an NTP for 180 EUs and a supplier quality issue which has been subsequently rectified. This resulted in WIP at the end of 2012 Q4 totaling 225 EUs, or 42 EUs more than at the end of 2012 Q3. This is the first time WIP has exceeded 200 EUs since 2011 Q3. The decrease in revenue from bus manufacturing operations for Fiscal 2012 primarily resulted from fewer deliveries in Fiscal 2012 compared to Fiscal 2011 offset by an increase in the average bus selling price during Fiscal 2012. Bus deliveries in Fiscal 2012 totaled 1,656 EUs representing a decrease of 8.6% as compared to 1,811 EUs in Fiscal 2011 primarily resulting from lower production volume when comparing the respective periods and a temporary increase in year-end WIP. The average selling price of $455.2 thousand per EU during Fiscal 2012 increased 1.7% from the average price per EU of $447.5 thousand during Fiscal 2011. This increase in average selling price is the result of changes in the product sales mix, which included more sales of hybrid buses and fewer articulated buses.

The revenue from aftermarket operations in 2012 Q4 was $28.9 million compared to $29.4 million in 2011 Q4, which represents an decrease of 1.6%, while the aftermarket operations revenue in Fiscal 2012 of $119.1 million increased 2.6% compared to $116.0 million in Fiscal 2011. The increase in Fiscal 2012 aftermarket operations revenue is primarily a result of increased volumes of $6.0 million offset somewhat by $2.6 million of decreased used bus sales, which management does not expect to continue in the future.

Cost of sales

The consolidated cost of sales for 2012 Q4 of $191.0 million decreased by 11.4% from 2011 Q4 consolidated cost of sales of $215.6 million. Fiscal 2012 consolidated cost of sales of $798.4 million decreased by 1.6% from Fiscal 2011 of $811.5 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 Q4 were $169.1 million compared to $194.1 million in 2011 Q4, a decrease of 12.9%. The cost of sales from bus manufacturing operations for Fiscal 2012 was $710.3 million as compared to $729.4 million in Fiscal 2011, representing a decrease of 2.6%. This decrease in cost of sales primarily relates to 8.6% fewer deliveries in Fiscal 2012 as compared to Fiscal 2011, reduction of material costs and manufacturing overhead achieved through OpEx. However, costs of sales from bus manufacturing operations was also impacted by a $1.8 million of past service pension expense, a mix of higher dollar items sold when comparing the two periods and a reduction in the amount of ITCs recognized by the Company. ITCs of $29.3 million were recognized in Fiscal 2011 as compared to none recognized in Fiscal 2012.

The cost of sales from aftermarket operations were $21.8 million in 2012 Q4 compared to $21.5 million in 2011 Q4, representing an increase of 1.5%. The cost of sales from aftermarket operations in Fiscal 2012 of $88.1 million increased 7.3% compared to $82.1 million in Fiscal 2011 primarily as a result of the increase in sales volumes and a mix of higher dollar items sold when comparing the two periods.

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

The consolidated SG&A for 2012 Q4 of $11.5 million increased 42.4% compared with $8.1 million in 2011 Q4. Consolidated SG&A for Fiscal 2012 were $43.1 million which increased by 3.8% compared with $41.5 million in Fiscal 2011. The increase in Fiscal 2012 SG&A is primarily a result of the new Long-term Incentive Plan expense (defined on page 21) which was partially offset by a $2.0 million reduction in Fiscal 2012 of incremental costs to explore and assess strategic and corporate initiatives. Fiscal 2011 Long-term Incentive Plan expense was artificially low due to reversing prior provision due to a change in earnings expectation during that year. Actual Long-term Incentive Plan expense in Fiscal 2012 is lower than Fiscal 2011.

Realized foreign exchange loss (gain)

In 2012 Q4, the Company recognized a net realized gain of $0.4 million compared with a net realized loss of $3.2 million in 2011 Q4. In Fiscal 2012, the Company recognized a net realized gain of $2.8 million as compared with a net realized gain of $0.2 million in Fiscal 2011. The increase in realized foreign exchange gain is primarily as a result of realization of foreign exchange gains on working capital accounts and favourable settlements of foreign exchange transactions.

Earnings from operations

The consolidated earnings from operations for 2012 Q4 in the amount of $7.7 million (3.7% of revenue) decreased compared to earnings from operations in 2011 Q4 of $30.1 million (11.7% of revenue). In Fiscal 2012, the consolidated earnings from operations of $34.2 million (3.9% of revenue) decreased 53.5% compared to $73.6 million (7.9% of revenue) in Fiscal 2011.

The earnings from bus manufacturing operations for 2012 Q4 were $3.4 million compared to earnings from bus operations of $25.0 million for 2011 Q4 (1.9% and 11.0%, respectively, of bus manufacturing revenue). The decrease in earnings during 2012 Q4 is a result of not recognizing any ITCs as compared to 2011 Q4 when the Company recognized $29.3 million of ITCs. In Fiscal 2012, the earnings from bus manufacturing operations were $14.7 million (1.9% of revenue) as compared to $50.1 million (6.2% of revenue) in Fiscal 2011, which represents a 70.7% decrease. The decrease results primarily from a reduction in deliveries and a decrease in ITCs which offset the realized foreign exchange gains in Fiscal 2012 as compared to Fiscal 2011.

The earnings from aftermarket operations of $4.3 million in 2012 Q4 decreased by 15.5% compared to 2011 Q4 earnings of $5.1 million. 2012 Q4 aftermarket operations margin of 14.8% decreased as compared to 17.2% in 2011 Q4. In Fiscal 2012, the earnings from aftermarket operations were $19.6 million (16.4% of revenue), which represents a 16.6% decrease as compared to $23.5 million (20.2% of revenue) in Fiscal 2011. The decrease is primarily due to the general tightening of margins during the period offset by increased volumes.

Unrealized foreign exchange loss (gain)

In 2012 Q4, the Company recognized a net unrealized loss of $0.3 million compared to a net unrealized gain of $1.7 million in 2011 Q4. During Fiscal 2012, the Company recognized a net unrealized loss of $1.4 million compared to a net unrealized gain of $0.9 million in Fiscal 2011. These results consist of the following:

(Unaudited, US dollars in thousands)	2012 Q4	2011 Q4	Fiscal 2012	Fiscal 2011
Unrealized loss (gain) on Canadian-denominated long-term debt	$ —	$ 1,694	$ 1,702	$ (503)
Unrealized loss (gain) on forward foreign exchanges contracts	132	(2,961)	159	(137)
Unrealized loss (gain) on other non-monetary assets/liabilities	124	(415)	(458)	(295)
	$ 256	$ (1,682)	$ 1,403	$ (935)

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

In 2012 Q4, the Company recorded EBIT of $7.5 million compared to EBIT of $31.9 million in 2011 Q4 and recorded EBIT of $25.9 million in Fiscal 2012 compared to EBIT of $68.7 million in Fiscal 2011. EBIT has been impacted by non-cash and non-recurring items as follows:

(Unaudited, US dollars in thousands)	2012 Q4	2011 Q4	Fiscal 2012	Fiscal 2011
Non-cash and non-recurring charges (recovery):				
Costs associated with assessing strategic and corporate initiatives	$ 390	$ 14	$ 742	$ 2,745
Fair value adjustment to embedded derivatives	—	(1,310)	1,395	1,153
Unrealized foreign exchange (gain) loss	256	(1,682)	1,403	(935)
Unrealized investment tax credits	—	(20,530)	—	(20,530)
Past service pension costs	—	—	1,762	—
Loss on debt repurchase	—	1,157	—	4,722
Loss on exercise of redemption right	—	—	5,530	—
Loss on disposition of property, plant and equipment	—	35	—	35
Amortization	6,336	6,308	24,326	24,243
Total non-cash and non-recurring charges:	$ 6,982	$ (16,008)	$ 35,158	$ 11,433

Absent these non-cash charges/recoveries, the 2012 Q4 EBIT would have been $14.5 million compared to $15.9 million in 2011 Q4, and $61.1 million in Fiscal 2012 compared to $80.1 million in Fiscal 2011.

Finance costs

The finance costs for 2012 Q4 was $3.3 million, which decreased 33.0% when compared to $5.0 million in 2011 Q4 and the finance costs in Fiscal 2012 of $15.1 million decreased 63.9% as compared to $42.0 million in Fiscal 2011. The decrease of $26.8 million of interest on long-term debt during Fiscal 2012 is mostly due to the repurchase of C$242.3 million of the 14% Subordinated Notes in August, 2011 and C$57.8 million in August, 2012 offset by $65.0 million issuance of 6.25% Debentures.

Earnings before income taxes

Earnings before income taxes for 2012 Q4 was $4.1 million compared to earnings before income taxes of $26.9 million in 2011 Q4 and earnings before income taxes for Fiscal 2012 was $10.8 million compared to earnings before income taxes of $26.7 million in Fiscal 2011. The difference in the earnings before income taxes between these periods result from the non-cash and non-recurring charges as described in the preceding table.

Income taxes

The income tax expense for 2012 Q4 was $0.2 million, consisting of $2.9 million of current income tax expense and $2.7 million of deferred income tax expense recovered. In comparison, the income tax expense for 2011 Q4 was $11.3 million, which consisted of $12.5 million of current income tax expense and $1.2 million of deferred income tax expense recovered. The decrease in income taxes when comparing the two periods was primarily due to the one-time income tax charge relating to the recording the ITCs in 2011 Q4.

The income tax expense for Fiscal 2012 was $1.0 million, consisting of $12.8 million of current income tax expense and $11.8 million of deferred income tax expense recovered. In comparison, the income tax expense for Fiscal 2011 was $10.7 million, consisting of $24.9 million of current income tax expense and $14.2 million of deferred income tax expense recovered.

Net earnings

The Company reported net earnings of $3.9 million in 2012 Q4 compared to net earnings of $15.6 million in 2011 Q4. The decrease in net earnings in 2012 Q4 is primarily attributable to the decrease in earnings before income taxes partially offset by the decrease in income taxes as noted above. Similarly, net earnings of $9.8 million in Fiscal 2012 decreased compared to the $15.9 million net earnings in Fiscal 2011. The Company's net earnings can be subject to a high degree of volatility from one fiscal period to the next as a result of non-cash and non-recurring charges and income taxes.

Cash Flow

The cash flows of the Company are summarized as follows:

(Unaudited, US dollars in thousands)	2012 Q4	2011 Q4	Fiscal 2012	Fiscal 2011
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	$ 11,225	$ 14,691	$ 53,139	$ 72,219
Interest paid	(4,567)	(5,791)	(17,073)	(43,425)
Income taxes recovered (paid)	505	(492)	(6,540)	(5,128)
Net cash earnings	7,163	8,408	29,526	23,666
Changes in non-cash working capital items	(12,005)	(19,532)	(24,003)	(62,136)
Cash flow from operating activities	(4,842)	(11,124)	5,523	(38,470)
Cash flow from financing activities	14,924	437	4,348	(18,653)
Cash flow from investing activities	$ (1,932)	$ (2,866)	$ (10,972)	$ (8,281)

Cash flows from operating activities

The 2012 Q4 net operating cash outflow of $4.8 million is the result of $7.2 million of net cash earnings offset by an increase in non-cash working capital of $12.0 million, compared to 2011 Q4 net operating cash outflow of $11.1 million which is the result of $8.4 million of net cash earnings offset by an increase of $19.5 million in non-cash working capital.

The Fiscal 2012 net cash operating inflow of $5.5 million is the result of $29.5 million of net cash earnings offset by an increase of $24.0 million in non-cash working capital compared to Fiscal 2011 net cash operating outflow of $38.5 million resulting from an increase of $62.1 million in working capital, offset by $23.7 million of net cash earnings. The Fiscal 2012 non-cash working capital changes that are primarily responsible for the significant outflow during the period are due to increased inventories and decreased provision for warranty costs offset by increase in deferred revenue.

Cash flow from financing activities

The Company's financing activities resulted in a net cash inflow of $14.9 million and $0.4 million for 2012 Q4 and 2011 Q4, respectively. The cash inflow during 2012 Q4 primarily relates to $22.0 million of proceeds from new draws on the Credit Facility which funded working capital needs and growth capital expenditures. During 2011 Q4, the Company borrowed $26.0 million from the Credit Facility and used $15.4 million to repurchase 14% Subordinated Notes and $9.3 million for dividends.

The Company's financing activities for Fiscal 2012 resulted in a net cash inflow of $4.3 million, compared to Fiscal 2011 net cash outflow of $18.7 million. The primary factors of this increase are a result of cash generated by new senior credit facility proceeds which was partially offset by increased dividend payments of $34.0 million compared to $24.6 million in Fiscal 2011. Increased dividends in Fiscal 2012 resulted from the issuance of shares in August 2011, mitigated somewhat by the concurrent decrease in the dividend rate. It should be noted that there were $4.6 million of costs associated with the Share issuance.

Cash flow from investing activities

2012 Q4 investing activities resulted in a net cash outflow of $1.9 million compared to $2.9 million in 2011 Q4, and a net cash outflow of $11.0 million in Fiscal 2012 compared to $8.3 million in Fiscal 2011. The Company's investing activities for Fiscal 2012 included investment in a small parts paint system, creation of weld kitting stations for in-sourcing of parts and conversion of the Winnipeg manufacturing plant from two production lines to one line that operates at twice the speed, all of which were funded by an increase in senior term loan.

The Company's investing activities during Fiscal 2012 also included $0.2 million of costs associated with licenses for New Flyer Connect™ which is a real-time bus and driver monitoring solution while Fiscal 2011 includes 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 Q4**	2011 Q4	**Fiscal 2012**	Fiscal 2011
Capital expenditures	$ 3,286	$ 3,167	$ 12,856	$ 8,689
Less capital expenditures funded by senior term loan for asset acquisitions	(1,315)	(2,192)	(6,843)	(4,000)
Less capital expenditures funded by capital leases	(1,365)	(267)	(2,058)	(1,005)
Cash capital expenditure	606	708	3,955	3,684
Comprised of:				
Maintenance capital expenditures	425	283	1,705	2,015
Growth capital expenditures	181	425	2,250	1,669
	606	708	3,955	3,684

Liquidity and Capital Resources

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

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

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

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

The Company generated Free Cash Flow of C$7.5 million during 2012 Q4 while declaring dividends of C$6.5 million as compared to negative Free Cash Flow of C$(3.2) million during 2011 Q4 while declaring dividends of C$9.5 million. The primary reason for the negative Free Cash Flow in 2011 Q4 is as a result of a $6.8 million one-time tax expense on the realization of the investment tax credit pool. During Fiscal 2012, New Flyer generated Free Cash Flow of C$27.8 million and declared dividends of C$33.1 million. In comparison, Fiscal 2011 Free Cash Flow and declared dividends were C$7.8 million and C$26.0 million, respectively. Free Cash Flow was negatively impacted by the one-time income tax charge of $13.4 million (C$13.1 million) that occurred in 2011 Q3 and as a result of a $6.8 million one-time tax expense on the realization of the investment tax credit pool in 2011 Q4. The benefit of the $23.3 million of unused ITCs is expected to be realized as cash inflows in the future.

During 2012 Q4, the Company increased its cash by $8.1 million primarily due to increased draws on the bank Revolver which offset the increased investment in non-cash working capital items, such as increased inventories and particularly WIP levels which have increased by 42 EUs from levels in 2012 Q3. During Fiscal 2012 the Company increased its cash by $1.0 million.

The December 30, 2012 liquidity position of $47.0 million is comprised of cash of $11.2 million and $35.8 million of available secured revolving credit facility. As at December 30, 2012, there were $40.0 million of direct borrowings and $14.2 million of outstanding letters of credits related to the $90.0 million of secured revolving credit. Management believes that these funds will provide the Company with sufficient liquidity and capital resources to meet its current and future financial obligations as they come due, as well as provide funds for its financing requirements, capital expenditures and other needs for the foreseeable future.

There are certain financial covenants under the Credit Facility that must be maintained. These financial covenants include an interest coverage ratio and total leverage ratio. Beginning August 20, 2012, the senior leverage ratio was removed, the fixed charge coverage ratio was replaced by an interest coverage ratio of not less than 3.00 and the total leverage ratio was changed to less than 3.25 and will not include the Debentures. At December 30, 2012, the Company is in compliance with the new and revised ratios.

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

	December 30, 2012	January 1, 2012
Total Leverage Ratio (must be less than 3.25)	2.52	2.15
Interest Coverage Ratio (must be greater than 3.00)	4.23	—
Senior Leverage Ratio (previously required to be less than 2.50)	—	1.43
Fixed Charge Coverage Ratio (previously required to be greater than 1.10)	—	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 $122.0 million of the drawn term credit facility. The interest rate swap fixes the interest rate at 1.90% plus the applicable interest margin until April 2014. The fair value of the interest rate swap liability of $2.0 million at December 30, 2012 (January 1, 2012: $2.8 million) was recorded on the consolidated statements of financial position as a derivative financial instruments liability and the change in fair value has been recorded as finance costs for the reported period.

Credit risk

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

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

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

	December 30, 2012	January 1, 2012
Current, including holdbacks	$ 104,759	$ 110,563
Past due amounts but not impaired		
1 – 60 days	6,251	2,671
Greater than 60 days	2,525	2,665
Less: allowance for doubtful accounts	(75)	(49)
Total accounts receivables, net	$ 113,460	$ 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

The following table outlines the Company's maturity analysis of the undiscounted cash flows of certain non-current financial liabilities and leases as at December 30, 2012:

US dollars in thousands	**Total**	**2013**	**2014**	**2015**	**2016**	**2017**	**Post 2017**
Senior term loan	$ 128,500	$ 5,000	$ 123,500	$ —	$ —	$ —	$ —
Convertible debentures	83,279	4,062	4,062	4,062	4,062	67,031	—
Finance leases	4,516	2,025	1,213	568	464	67	179
Operating leases	25,759	2,614	2,215	1,784	1,821	1,859	15,466
	$ 242,054	$ 13,701	$ 130,990	$ 6,414	$ 6,347	$ 68,957	$ 15,645

As at December 30, 2012, outstanding surety bonds guaranteed by the Company amounted to $52.0 million, representing an increase compared to $32.0 million at January 1, 2012. The estimated maturity dates of the surety bonds outstanding at December 30, 2012 range from January 2013 to December 2013.

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

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

(Unaudited, US dollars in thousands)	
Collateral to secure operating facility leases	$ 284
Collateral to secure surety facilities	3,000
Customer performance guarantees	9,018
Collateral in support of self-insured workers' compensation obligations	1,905

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. 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.

The purposes of the performance unit plan ("PSU Plan") and the RSU Plan (collectively, the "Long-term Incentive Plans") are to attract, retain, motivate and reward officers and senior managers of the Company by making a significant portion of their long-term incentive compensation dependent on the Company's financial performance. One of the key advantages of the Long-term Incentive Plans 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 Long-term Incentive Plans, the human resources, compensation and corporate governance committee may grant eligible participants each year unit grants which give the holders thereof the right to receive, upon vesting and redemption of units, a cash payment equal to the fair market value of a Share. When dividends are paid on a Share, additional units equivalent to the amount of the dividends multiplied by the number of units held (and determined based on the then fair market value of the Shares) will be credited to the participant's account. Performance share units ("PSUs") granted under the PSU Plan generally vest at the end of the third fiscal year following the date of grant in an amount equal to a percentage of between approximately 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.

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 elected amount by the fair market value of a Share on that date. When dividends are paid on a Share, additional DSUs equivalent to the amount of the dividend multiplied by the number of DSUs held (and determined based on the then fair market value of the Shares) will be credited to the director's account. 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 Fiscal 2012, a compensation expense of $1.0 million (Fiscal 2011: $(2.0) million recovery) was recorded in the consolidated statements of profit or loss and total comprehensive income.

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

IFRS 9 Financial Instruments:

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

IAS 19 (Revised 2011) Employee Benefits:

The main changes to the standard are the elimination of the corridor approach (with all changes to the defined benefit obligation and plan assets recognized when they occur) and calculation of net interest using a high quality corporate bond yield. Retrospective application is required with certain exceptions, effective January 1, 2013. As a result of the retrospective application, the comparative Fiscal 2012 pension expense will be restated and increased by approximately $750 thousand and an equal and offsetting adjustment to actuarial loss on defined benefit pension plan will be recorded in other comprehensive loss.

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

IAS 1 (Revised 2011) Presentation of Financial Statements:

Disclosure of other comprehensive income items between those that are recycled to profit or loss and those not recycled is required with retrospective application, effective for years beginning on or after July 1, 2012. Management does not expect a 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 does not expect a material impact to the financial statements as a result of adopting this standard.

IFRS 11 Joint Arrangements:

The new standard classifies arrangements as either joint operations or joint ventures. All interests in joint ventures should now be accounted for based on the equity method. Transitional provisions vary depending on how an interest is classified under IAS 31, effective January 1, 2013. 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 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 IFRS. Management, under the supervision of the CEO and CFO, evaluated the design of the Company's ICFR as of December 30, 2012 in accordance with the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and concluded that the Company's ICFR are effective.

There have been no changes in the Company's ICFR during 2012 Q4 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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

Disclosure Controls

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

Consolidated Financial Statements of

NEW FLYER INDUSTRIES INC.

December 30, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of New Flyer Industries Inc.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Deloitte LLP

Chartered Accountants

March 20, 2013
Winnipeg, Manitoba

NEW FLYER INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND TOTAL COMPREHENSIVE INCOME

52 weeks ended December 30, 2012 (“Fiscal 2012”) and 52 weeks ended January 1, 2012 (“Fiscal 2011”)

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

		Fiscal 2012		Fiscal 2011 Restated (note 7)
Revenue (note 17)	$	872,915	$	926,423
Cost of sales (note 4, 22)		798,395		811,453
Gross profit		74,520		114,970
Sales, general and administration costs and other operating expenses (note 22)		43,091		41,525
Foreign exchange gain (note 16c)		(2,812)		(184)
Earnings from operations		34,241		73,629
Unrealized foreign exchange loss (gain) on non-current monetary items		1,403		(935)
Loss on disposition of property, plant and equipment		—		35
Loss on exercise of redemption right (note 10b)		5,530		—
Loss on debt repurchase		—		4,722
Fair value adjustment to embedded derivatives		1,395		1,153
Earnings before finance costs and income taxes		25,913		68,654
Finance costs				
Interest on long-term debt and convertible debentures		11,852		37,008
Accretion in carrying value of long-term debt and convertible debentures		1,432		913
Other interest and bank charges		2,701		3,743
Fair market value adjustment on interest rate swap		(835)		302
		15,150		41,966
Earnings before income tax expense		10,763		26,688
Income tax expense (note 7)				
Current income taxes		12,809		24,895
Deferred income taxes (recovered)		(11,804)		(14,156)
		1,005		10,739
Net earnings for the period (note 7)	$	9,758	$	15,949
Other comprehensive loss for the period, net of tax				
Actuarial loss on defined benefit pension plan (note 15) – this item will not be reclassified subsequently to profit or loss		2,107		1,990
Total comprehensive income for the period	$	7,651	$	13,959
Net earnings per share (basic) (note 7, 13)	$	0.22	$	0.81
Net earnings per share (diluted) (note 7, 13)	$	0.22	$	0.81

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

NEW FLYER INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 30, 2012 and January 1, 2012

(in thousands of U.S. dollars)

	December 30, 2012	January 1, 2012
Assets		
Current		
Cash	$ 11,182	$ 10,133
Accounts receivable (note 3,16c)	113,460	115,850
Inventories (note 4)	124,712	93,491
Derivative financial instruments (note 16b,c)	—	145
Prepaid expenses and deposits	4,724	5,077
	254,078	224,696
Property, plant and equipment (note 5,17)	42,024	37,397
Embedded derivative instruments (note 16b)	—	3,684
Unused investment tax credits (note 7)	23,262	23,766
Deferred tax assets (note 7)	49,332	36,558
Goodwill and intangible assets (note 6)	528,528	544,361
	$ 897,224	$ 870,462
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 150,828	$ 152,207
Income taxes payable	6,756	4,964
Deferred revenue	19,190	1,897
Provision for warranty costs (note 21)	20,106	32,808
Current portion of long-term debt (note 10)	40,035	9,000
Derivative financial instruments (note 16b,c)	14	—
Current portion of deferred compensation obligation (note 9)	—	1,404
Current portion of obligations under finance leases (note 8)	1,857	2,377
	238,786	204,657
Accrued benefit liability (note 15)	8,973	9,136
Obligations under finance leases (note 8)	2,314	2,102
Deferred compensation obligation (note 9)	1,233	262
Deferred tax liabilities (note 7)	122,244	119,088
Long-term debt (note 10)	120,950	166,835
Convertible debentures (note 11)	56,760	—
Derivative financial instruments (note 16b, c)	1,976	2,811
	553,236	504,891
Commitments and contingencies (note 19)		
Shareholders' equity		
Share capital (note 12)	476,918	476,918
Equity component of convertible debentures (note 11)	3,841	—
Deficit	(136,771)	(111,347)
	343,988	365,571
	$ 897,224	$ 870,462

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

Approved and authorized for issue by the board of directors on March 20, 2013.

"Hon. Brian V. Tobin, Director"

"Wayne McLeod, Director"

NEW FLYER INDUSTRIES INC.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

December 30, 2012

(in thousands of U.S. dollars)

	Share Capital	Equity Component of Convertible Debentures (note 11)	Deficit	Total Shareholders' Equity
Balance, January 2, 2011	**$ 226,338**	**$ —**	**$ (99,225)**	**$ 127,113**
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 (restated note 7)	—	—	15,949	15,949
Other comprehensive loss for the period	—	—	(1,990)	(1,990)
Dividends declared on common shares	—	—	(26,081)	(26,081)
Deferred tax assets recognized as a result of historical share issuances (restated note 7)	6,638	—	—	6,638
Balance, January 1, 2012	**476,918**	**—**	**(111,347)**	**365,571**
Net earnings for the period	—	—	9,758	9,758
Other comprehensive loss for the period	—	—	(2,107)	(2,107)
Dividends declared on common shares	—	—	(33,075)	(33,075)
Equity component of convertible debentures (net of tax $1,421)	—	3,841	—	3,841
Balance, December 30, 2012	**$ 476,918**	**$ 3,841**	**$ (136,771)**	**$ 343,988**

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

NEW FLYER INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

52 weeks ended December 30, 2012 and 52 weeks ended January 1, 2012

(in thousands of U.S. dollars)

	Fiscal 2012	Fiscal 2011 Restated (note 7)
Cash generated from (used in)		
Operating activities		
Net earnings for the period (note 7)	$ 9,758	$ 15,949
Income tax expense (note 7)	1,005	10,739
Depreciation of plant and equipment	8,319	8,262
Amortization of intangible assets	16,007	15,981
Loss on disposition of property, plant and equipment	—	35
Finance costs recognized in profit or loss	15,150	41,966
Unrealized foreign exchange loss (gain) on non-current monetary items	1,403	(935)
Foreign exchange gain on cash held in foreign currency	(2,150)	(2,074)
Fair value adjustment to embedded derivatives	1,395	1,153
Loss on exercise of redemption right	5,530	—
Loss on debt repurchase	—	4,722
Realized (unrealized) investment tax credits	504	(20,530)
Defined benefit expense (note 15)	3,554	1,821
Defined benefit funding (note 15)	(7,336)	(4,870)
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	53,139	72,219
Changes in non-cash working capital items (note 14)	(24,003)	(62,136)
Cash generated from operations before interest and income taxes paid	29,136	10,083
Interest paid	(17,073)	(43,425)
Income taxes paid	(6,540)	(5,128)
Net cash generated from (used in) operating activities	5,523	(38,470)
Financing activities		
Repayment of obligations under finance lease	(2,418)	(2,732)
Proceeds from issue of long-term debt	42,035	30,000
Costs associated with refinancing or debt issuance	—	(1,288)
Proceeds from issue of convertible debentures	65,000	—
Costs associated with convertible debentures issuance	(3,789)	—
Repayment of subordinated notes	(62,449)	(15,439)
Costs associated with share issuance	—	(4,600)
Dividends paid	(34,031)	(24,594)
Net cash generated from (used in) financing activities	4,348	(18,653)
Investing activities		
Proceeds on disposition of property, plant and equipment	—	35
Acquisition of intangible assets	(174)	(631)
Acquisition of property, plant and equipment	(10,798)	(7,685)
Net cash used in investing activities	(10,972)	(8,281)
Effect of foreign exchange rate on cash	2,150	2,074
Increase (decrease) in cash	1,049	(63,330)
Cash — beginning of period	10,133	73,463
Cash — end of period	$ 11,182	$ 10,133

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

1. CORPORATE INFORMATION

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

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

These financial statements were approved by the Company's board of directors (the "Board") on March 20, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

These Statements were prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS"), which requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Statements are disclosed in Note 2.21.

2.2 Principles of consolidation

The Statements include the accounts of all of the Company's subsidiaries. The Statements are those of NFI together with 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 ("TCB").

Subsidiaries

Subsidiaries are entities over which the Company has control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefits from its activities. The Company holds 100% of the voting rights in, and therefore controls, its subsidiaries.

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

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

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

Intercompany transactions between subsidiaries are eliminated on consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Operating segments

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

2.4 Foreign currency

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

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

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

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

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

2.5 Revenue recognition

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Employee benefits

For defined benefit pension plans and other post-employment benefits, the net periodic pension expense is actuarially determined on an annual basis by independent actuaries using the projected unit credit method. The determination of benefit expense requires assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations and expected mortality. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value.

Actual results will differ from results which are estimated based on assumptions. The vested portion of past service cost arising from plan amendments is recognized immediately in the consolidated statements of profit or loss and total comprehensive income. The unvested portion is amortized on a straight-line basis over the average remaining vesting period.

The asset or liability recognized in the consolidated statements of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unvested past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized immediately in other comprehensive income (loss). For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan.

IFRIC 14 "IAS 19 - The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" addresses the application of paragraph 58 of IAS 19 which limits the measurement of a defined benefit asset to "the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan" plus cumulative unrecognized net losses and past service cost. IFRIC 14 provides guidance regarding (a) when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19, (b) how a minimum funding requirement might affect the availability of reductions in future contributions and (c) when a minimum funding requirement might give rise to a liability.

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

2.7 Share-based compensation plans

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

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

2.8 Cash

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

2.9 Accounts receivables

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Inventories

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

2.11 Property, plant and equipment

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

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

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

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

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

2.12 Intangible assets

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

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

Patents and Licenses	5-12 years
Customer relationships	21 years

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

2.13 Goodwill

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Impairment of non-financial assets

Non-financial assets with finite lives are tested at the end of every reporting period for possible impairment when there are events or changes in circumstances that indicate that their carrying amounts may not be recoverable. In addition, long-lived assets that are not amortized are subject to an annual impairment assessment. The carrying values of identifiable intangible assets with indefinite lives are tested annually for impairment because they are not amortized. Impairment is determined by comparing the recoverable amount of such assets with their carrying amounts. Any impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount within earnings of continuing or discontinued operations, as appropriate. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows or cash generating units ("CGUs"). The Company evaluates impairment losses for potential reversals, other than goodwill impairment, when events or changes in circumstances warrant such consideration.

2.15 Provisions

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

At the time of sale, a provision for warranty claims is recorded and charged against operations. This warranty provision is based upon management's best estimate of expected future warranty costs utilizing past claims experience. Actual warranty expenditures are charged against the provision as incurred.

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

2.16 Long-term debt

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Financial instruments

Financial assets

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

Financial assets at fair value through profit or loss

Classification

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

Recognition and measurement

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

Loans and receivables

Classification

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

Recognition and measurement

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

Financial liabilities

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

Derivative instruments

Derivatives are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at their fair value.

The Company's derivative instruments, while providing effective economic hedges, are not designated as hedges for accounting purposes. Changes in the fair value of any derivatives that are not designated as hedges for accounting purposes are recognized within "finance costs" or "unrealized foreign exchange loss (gain) on non-current monetary items" in the consolidated statements of profit or loss and total comprehensive income consistent with the underlying nature and purpose of the derivative instruments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Embedded derivatives

The Company can have embedded foreign currency derivatives in certain revenue and purchase contracts where the currency of the contract is different from the functional or local currencies of the parties involved. These derivatives are accounted for as separate instruments and are measured at fair value at each consolidated statements of financial position date using forward exchange market rates. The Company had an embedded derivative associated with the Company's right to prepay the Subordinated Notes (discussed in note 10(b)). Changes in fair values are recognized within the consolidated statements of profit or loss and comprehensive income.

2.18 Taxation

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

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

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

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

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

2.19 Investment tax credits

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Vendor Rebates

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

2.21 Critical accounting estimates and judgments

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

Critical accounting estimates and assumptions

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

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

Intangible assets and goodwill

The values associated with intangible assets and goodwill involves significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives.

These significant estimates are subject to the Company's future results. These determinations will affect the amount of amortization expense on intangible assets recognized in future periods.

The Company assesses impairment by comparing the recoverable amount of an intangible asset or goodwill with its carrying value. The determination of the recoverable amount involves significant estimation by management.

Goodwill is allocated to CGUs for the purpose of impairment testing. The Company's two operating segments constitute its two CGUs. The Company performs its annual test for impairment of goodwill and trade names in the fourth quarter of each year. Prior to this year, the Company's annual test for impairment of goodwill and trade names occurred in the third quarter of each year, however the timing was re-assessed to better align with the preparation of the Company's annual budget and multi-year forecasting.

Employee benefits

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

Actual results will differ from results which are estimated based on assumptions. See note 2.6 for certain assumptions made with respect to employee benefits.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

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

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

Provision for Warranty Costs

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

Critical judgments in applying accounting policies

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

Revenue recognition

As described in note 2.5, the Company assessed the criteria for the recognition of revenue related to arrangements that have multiple components as set out in IAS 18. Also, judgment is necessary to determine when components can be recognized separately and the allocation of the related consideration allocated to each component.

Functional currency

The Company assessed the criteria for the determination of functional currency as set out in IAS 21. An entity is required to place the greatest weight on the currency that influences the pricing of the transactions that it undertakes rather than focusing on the currency in which the transactions are denominated in. The functional currency of the Company is the United States dollar as it is the currency of the primary economic environment in which the Company operates. In addition, it is the competitive forces of the United States marketplace that determines the sales prices of its goods and services. Predominantly, the costs for labour, material and overhead that address the needs and support the Company's customers are incurred in United States dollars, and hence the pricing of goods and services to the customer is more greatly influenced from operations and the competitive forces in the United States.

Goodwill

Judgment is required in the selection of CGUs and the allocation of assets and liabilities to these CGUs, which is necessary to assess the impairment of long term assets, goodwill and intangible assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 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.

2.23 Standards issued but not yet adopted

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

IFRS 9 Financial Instruments:

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

IAS 19 (Revised 2011) Employee Benefits:

The main changes to the standard are the elimination of the corridor approach (with all changes to the defined benefit obligation and plan assets recognized when they occur) and calculation of net interest using a high quality corporate bond yield. Retrospective application is required with certain exceptions, effective January 1, 2013. As a result of the retrospective application, the comparative Fiscal 2012 pension expense will be restated and increased by approximately $750 and an equal and offsetting adjustment to actuarial loss on defined benefit pension plan will be recorded in other comprehensive loss.

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

IAS 1 (Revised 2011) Presentation of Financial Statements:

Disclosure of other comprehensive income items between those that are recycled to profit or loss and those not recycled is required with retrospective application, effective for years beginning on or after July 1, 2012. Management does not expect a 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 does not expect a material impact to the financial statements as a result of adopting this standard.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS 11 Joint Arrangements:

The new standard classifies arrangements as either joint operations or joint ventures. All interests in joint ventures should now be accounted for based on the equity method. Transitional provisions vary depending on how an interest is classified under IAS 31, effective January 1, 2013. 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 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.

3. ACCOUNTS RECEIVABLE

	December 30, 2012	January 1, 2012
Trade	$ 108,635	$ 111,047
Other	4,825	4,803
	$ 113,460	$ 115,850

4. INVENTORIES

	December 30, 2012	January 1, 2012
Raw materials	$ 59,338	$ 45,454
Work in process	62,753	46,340
Finished goods	2,621	1,697
	$ 124,712	$ 93,491

	Fiscal 2012	Fiscal 2011
Cost of inventories recognized as expense and included in cost of sales	$ 732,312	$ 751,120
Write-down of inventory to net realizable value in cost of sales	1,124	1,828
Reversals of a previous write-down in inventory	192	—

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

5. PROPERTY, PLANT AND EQUIPMENT

	Land, building and building improvements	Machinery and equipment	Computer hardware and software	Office equipment	Demonstrator buses	Total
Cost	$ 14,769	$ 32,968	$ 13,314	$ 953	$ 2,583	$ 64,587
Accumulated depreciation	1,476	16,198	8,048	300	1,479	27,501
January 2, 2011 net book value	13,293	16,770	5,266	653	1,104	37,086
Additions (owned and leased)	1,193	4,892	1,581	154	869	8,689
Disposals	—	(70)	—	—	—	(70)
Depreciation charge	(456)	(4,634)	(2,146)	(150)	(922)	(8,308)
January 1, 2012 net book value	14,030	16,958	4,701	657	1,051	37,397
Additions (owned and leased)	538	9,781	2,350	187	—	12,856
Depreciation charge	(465)	(4,787)	(2,012)	(149)	(816)	(8,229)
December 30, 2012 net book value	$ 14,103	$ 21,952	$ 5,039	$ 695	$ 235	$ 42,024

	Land, building and building improvements	Machinery and equipment	Computer hardware and software	Office equipment	Demonstrator buses	Total
Recorded as:						
Cost	$ 15,962	$ 37,699	$ 14,780	$ 1,107	$ 3,452	$ 73,000
Accumulated depreciation	1,932	20,741	10,079	450	2,401	35,603
January 1, 2012 net book value	$ 14,030	$ 16,958	$ 4,701	$ 657	$ 1,051	$ 37,397
Cost	16,500	47,480	17,130	1,294	3,452	85,856
Accumulated depreciation	2,397	25,528	12,091	599	3,217	43,832
December 30, 2012 net book value	$ 14,103	$ 21,952	$ 5,039	$ 695	$ 235	$ 42,024

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

The Company leases various machinery and computer hardware and software licenses under non-cancellable finance lease agreements (note 8). During Fiscal 2012 the Company had $2,063 (2011: $1,005) of additions to leased machinery and computer hardware. The Company is a lessee under finance leases for machinery and computer hardware and software licenses as follows (which amounts have been included in the preceding table):

	Machinery and equipment	Computer hardware and software	Total
Cost	$ 7,989	$ 4,993	$ 12,982
Accumulated depreciation	5,451	3,695	9,146
January 1, 2012 net book value	2,538	1,298	3,836
Cost	8,624	6,421	15,045
Accumulated depreciation	6,928	4,534	11,462
December 30, 2012 net book value	$ 1,696	$ 1,887	$ 3,583

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

6. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Trade names	Patents and Licenses	Customer relationships	Total
Cost	$ 202,168	$ 154,200	$ 99,700	$ 158,700	$ 614,768
Accumulated amortization	—	—	28,832	26,225	55,057
January 2, 2011 net book value	202,168	154,200	70,868	132,475	559,711
Additions	—	—	631	—	631
Amortization charge	—	—	(8,424)	(7,557)	(15,981)
January 1, 2012 net book value	202,168	154,200	63,075	124,918	544,361
Additions	—	—	174	—	174
Amortization charge	—	—	(8,450)	(7,557)	(16,007)
December 30, 2012 net book value	$ 202,168	$ 154,200	$ 54,799	$ 117,361	$ 528,528
Recorded as:					
Cost	$ 202,168	$ 154,200	$ 100,331	$ 158,700	$ 615,399
Accumulated amortization	—	—	37,256	33,782	71,038
January 1, 2012 net book value	202,168	154,200	63,075	124,918	544,361
Cost	202,168	154,200	100,505	158,700	615,573
Accumulated amortization	—	—	45,706	41,339	87,045
December 30, 2012 net book value	$ 202,168	$ 154,200	$ 54,799	$ 117,361	$ 528,528

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use estimated cash flow projections based on financial plans approved by the Board covering a three-year period and discount rates based on weighted average cost of capital of like businesses that range between 9% and 13% per annum for the Bus Operations segment and between 6% and 7% per annum for the Aftermarket Operations segment. Cash flows beyond this period are extrapolated using a steady estimated growth rate based on the long-term average annual growth rate of 3% for each industry in which the CGUs operate.

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

Impairment could occur if the cash flow projections are lower by 8.0% annually or if the average annual growth rate is decreased by more than 1.0% or if the discount rate is higher by at least 1.5%.

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

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

7. DEFERRED TAXES AND INCOME TAX EXPENSE

	December 30, 2012	January 1, 2012
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	$ 41,488	$ 33,416
Deferred tax asset to be recovered within 12 months	13,477	13,368
	54,965	46,784
Deferred tax liabilities:		
Deferred tax liability to be reversed after more than 12 months	(119,996)	(123,079)
Deferred tax liability to be reversed within 12 months	(7,881)	(6,235)
	(127,877)	(129,314)
Deferred taxes (net)	$ (72,912)	$ (82,530)

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

	December 30, 2012	January 1, 2012
As presented on statements of financial position:		
Deferred tax assets	$ 49,332	$ 36,558
Deferred tax liabilities	(122,244)	(119,088)
Deferred taxes (net)	$ (72,912)	$ (82,530)

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

	Fiscal 2012	Fiscal 2011 (restated)
Beginning of period	$ (82,530)	$ (101,029)
Exchange differences	287	(236)
Tax recorded through net earnings	11,804	14,156
Tax recorded through other comprehensive loss	1,294	1,189
Benefit of loss carry forward and share issuance costs recognized against income taxes payable	(2,346)	(3,248)
Tax recorded through equity	(1,421)	6,638
End of period	$ (72,912)	$ (82,530)

In Fiscal 2012 the current tax benefit associated with utilizing loss carry forwards and deducting historical share issuance costs has been recorded through deficit whereas in Fiscal 2011 the similar benefit was recorded in error as a reduction of current income taxes. Management has determined that the error was not material to any of the periods presented. However, in order to conform to the Fiscal 2012 presentation and the requirements under IAS 12, the Fiscal 2011 current income taxes have been increased by $3,248 instead of being credited directly through deficit. The correction of this immaterial error did not have an impact on Fiscal 2011 assets, liabilities or ending deficit of the Company. However, as a result of this correction, net earnings for Fiscal 2011 decreased from $19,197 to $15,949 and earnings per share decreased from $0.98 to $0.81.

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

7. DEFERRED TAXES AND INCOME TAX EXPENSE (Continued)

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

Deferred tax liabilities	Property Plant and Equipment	Unrealized Foreign Exchange	Goodwill and Intangibles	Other	Total
January 2, 2011	$ (1,276)	$ (6,480)	$ (134,436)	$ (382)	$ (142,574)
Tax reversed through net earnings	485	6,480	5,817	478	13,260
January 1, 2012	(791)	—	(128,619)	96	(129,314)
Tax reversed (charged) through net earnings	340	—	6,077	(3,471)	2,946
Tax recorded through equity	—	—	—	(1,509)	(1,509)
December 30, 2012	$ (451)	$ —	$ (122,542)	$ (4,884)	$ (127,877)

Deferred tax assets	Provisions	Property Plant and Equipment	Pension	Deferred Financing Costs and Interest	Other	Total
January 2, 2011	$ 18,983	$ —	$ 3,355	$ 5,993	$ 13,214	$ 41,545
Tax recovered (charged) through net earnings	(3,632)	—	(1,124)	410	5,242	896
Tax recovered through other comprehensive loss	—	—	1,189	—	—	1,189
Tax recorded through equity	—	—	—	2,646	3,992	6,638
Benefit of loss carry forward and share issuance costs recognized against income taxes payable	—	—	—	(869)	(2,379)	(3,248)
Exchange differences	(131)	—	15	(42)	(78)	(236)
January 1, 2012	15,220	—	3,435	8,138	19,991	46,784
Tax recovered (charged) through net earnings	(2,971)	14,710	(1,378)	6,981	(8,484)	8,858
Tax recovered through other comprehensive loss	—	—	1,294	—	—	1,294
Tax recorded through equity	—	—	—	88	—	88
Benefit of loss carry forward and share issuance costs recognized against income taxes payable	—	—	—	(733)	(1,613)	(2,346)
Exchange differences	103	—	23	55	106	287
December 30, 2012	$ 12,352	$ 14,710	$ 3,374	$ 14,529	$ 10,000	$ 54,965

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

As at December 30, 2012, the Company has $23,262 (2011:$23,766) of unused ITCs available to be applied against future income taxes payable; as such a long-term receivable has been recorded on the consolidated statements of financial position. Management anticipates that the unused ITCs will be utilized over the next three years.

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

7. DEFERRED TAXES AND INCOME TAX EXPENSE (Continued)

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

	Fiscal 2012	Fiscal 2011 (restated)
Earnings before income tax expense	$ 10,763	$ 26,688
Tax calculated using a 35% U.S. tax rate	3,767	9,341
Tax effect of:		
Withholding and other taxes	898	1,764
Non-deductible expenses (non-taxable income)	1,376	2,013
Revision of tax estimates	(883)	(6)
Foreign exchange impact	(898)	(1,008)
State taxes	(606)	117
Rate differential on income taxed at other than U.S. statutory rate	(2,870)	(765)
Other	221	(717)
Income tax expense for the period	$ 1,005	$ 10,739

	Fiscal 2012	Fiscal 2011 (restated)
Current income taxes for the period	$ 12,809	$ 24,895
Deferred income taxes recovered for the period	(11,804)	(14,156)
Income tax expense for the period	$ 1,005	$ 10,739

8. OBLIGATIONS UNDER FINANCE LEASES

The Company has entered into finance leases for equipment, computer hardware and software licenses, with an imputed weighted average interest rate of 5.71% based on individual lease rates ranging between 3.17% and 12.95%, expiring between 2013 and 2018. The following is a schedule of future minimum lease payments, together with the balance of the obligation under the finance leases as at December 30, 2012:

2013	$ 2,025
2014	1,213
2015	568
2016	464
2017	246
	4,516
Less: Amounts representing interest	345
	4,171
Less: Current portion	1,857
	$ 2,314

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

9. DEFERRED COMPENSATION OBLIGATION

	December 30, 2012	January 1, 2012
Performance unit plan (officers and senior management)	$ 624	$ 1,666
Restricted share unit plan (officers and senior management)	475	—
Deferred share unit plan (non-employee board of directors)	134	—
	1,233	1,666
Less: current portion	—	1,404
	$ 1,233	$ 262

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. 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. RSUs shall also immediately vest upon the closing of a transaction resulting in certain change of control events and upon certain terminations of employment.

The purposes of the performance unit plan (“PSU Plan”) and the RSU Plan (collectively, the “Long-term Incentive Plans”) are to attract, retain, motivate and reward officers and senior managers of the Company by making a significant portion of their long term incentive compensation dependent on the Company's financial performance. One of the key advantages of the Long-term Incentive Plans 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 Long-term Incentive Plans, the human resources, compensation and corporate governance committee may grant eligible participants each year unit grants which give the holders thereof the right to receive, upon vesting and redemption of units, a cash payment equal to the fair market value of a Share. When dividends are paid on a Share, additional units equivalent to the amount of the dividends multiplied by the number of units held (and determined based on the then fair market value of the Shares) will be credited to the participant's account. Performance share units (“PSUs”) granted under the PSU Plan generally vest at the end of the third fiscal year following the date of grant in an amount equal to a percentage of between approximately 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.

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 elected amount by the fair market value of a Share on that date. When dividends are paid on a Share, additional DSUs equivalent to the amount of the dividend multiplied by the number of DSUs held (and determined based on the then fair market value of the Shares) will be credited to the director’s account. 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 (note 18). The effect of a change in estimate is recognized in the period in which it occurs.

During Fiscal 2012, there were 493,625 PSUs, RSUs and DSUs that were granted to the Company’s executives and directors and 53,643 RSUs and PSUs were credited to the participants for distributions paid. At December 30, 2012, there were no PSUs, RSUs and DSUs that were fully vested.

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

10. LONG-TERM DEBT

	Final Maturity		Face Value		Unamortized Transaction Costs		**Net Book Value December 30, 2012**		Net Book Value January 1, 2012
Term Credit Facility (a)	2014	$	122,000	$	(1,050)	$	120,950	$	109,340
Revolving Credit Facility ("Revolver") (a)	2014		40,035		—		40,035		9,000
Subordinated Notes included in the IDS issue (b)	2012		—		—		—		30,547
Separate Subordinated Notes (b)	2012		—		—		—		26,948
			162,035		(1,050)		160,985		175,835
Less: current portion of long-term debt (a)			40,035		—		40,035		9,000
		$	122,000	$	(1,050)	$	120,950	$	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 (b) below) to be repaid in April 2014.

a) On June 25, 2012, the Company entered into a third amended and restated credit agreement (the "Credit Facility") with The Bank of Nova Scotia and Bank of Montreal, as co-lead arrangers and joint book runners, and a syndicate of leading Canadian and American financial institutions. The Credit Facility matures on April 24, 2014 and consists of a $105.0 million term loan (the "Term Credit Facility") and a $75.0 million accordion term loan feature, under which $17.0 million was drawn at December 30, 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 $40.0 million of direct borrowings and $14.2 million of outstanding letters of credits were drawn at December 30, 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.

   The June 25, 2012 Credit Facility amendments adjusted certain of the financial covenants effective on the redemption of the Subordinated Notes (defined below). The covenant changes are intended to reflect the Company's new capital structure following the redemption of the Subordinated Notes.

   As at December 30, 2012, management believes that the Company was in compliance in all material respects with all applicable contractual obligations and the Company has not provided for any costs associated with these letters of credit (note 16).

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

b) On August 20, 2012 (the "redemption date"), NFI ULC completed the redemption of all of its outstanding 14.0% subordinated notes (the "Subordinated Notes"), including those held separately and those held in the form of an income deposit security ("IDS"), in accordance with the terms of the trust indenture governing the Subordinated Notes. The Subordinated Notes were redeemed for a total price of C$58.4812 per C$55.30 principal amount of Subordinated Notes, representing a redemption price of C$58.065 per C$55.30 principal amount of Subordinated Notes (or 105% of principal), plus all accrued and unpaid interest to and including the redemption date.

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

10. LONG-TERM DEBT (Continued)

On the redemption date, the IDSs were automatically separated and holders of IDSs received (i) a number of Shares equal to the number of IDSs held immediately prior to redemption of the Subordinated Notes, and (ii) C$58.4812 per C$55.30 principal amount of Subordinated Notes.

Following the redemption of the Subordinated Notes, the IDSs were delisted from the TSX and the Shares that used to form part of the IDSs commenced trading separately and continued to be listed (together with the other separately traded Shares) on the TSX under the trading symbol "NFI". On September 19, 2012 NFI ULC ceased to be a reporting issuer under the securities laws of each province and territory of Canada. The redemption of the Subordinated Notes was financed with the net proceeds of NFI's public offering of Debentures (note 11).

A loss on exercise of redemption right of $5,530 was recognized on June 25, 2012 (the date when the Company issued formal notice of the redemption). The loss was a result of recording the present value of the redemption amount and the change in fair value of the embedded derivative call option included in the Subordinated Notes.

11. CONVERTIBLE DEBENTURES

On June 5, 2012, the Company completed a public offering of $65,000 aggregate principal amount of Debentures, bearing interest at a rate of 6.25% per annum, payable semi-annually on the last day of June and December commencing on December 31, 2012. The Debentures will mature on June 30, 2017 (the "Maturity Date"). The Debentures will be convertible at the holder's option into Shares at a conversion price of $10.00 per Share (the "Conversion Option").

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

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

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

	Debenture liability component	Equity component of Debenture	**Net Book Value December 30, 2012**	Net Book Value January 1, 2012
Proceeds from issue of Debentures	$ 59,412	$ 5,588	$ 65,000	$ —
Debenture issuance costs	(3,463)	(326)	(3,789)	—
Net proceeds	55,949	5,262	61,211	
Accretion in carrying value of debenture liability	811	—	811	
Deferred taxes	—	(1,421)	(1,421)	—
Net book value	$ 56,760	$ 3,841	$ 60,601	$ —

12. SHARE CAPITAL

Authorized (Unlimited Common Shares)

Issued			December 30, 2012		January 1, 2012
44,379,070	(January 1, 2012: 44,379,070)	$	476,918	$	476,918

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

Common Shares	Number (000s)		Net Book Value
Balance - January 2, 2011	4,948	$	226,338
Common shares issued in exchange for Subordinated Notes included in IDS units on August 19, 2011			
(Shares issued 394,315 then consolidated on a ten shares for one basis)	39,431		248,542
Less: share issuance costs	—		(4,600)
Deferred tax assets recognized as a result of historical share issuances	—		6,638
Balance - January 1, 2012 and December 30, 2012	44,379	$	476,918

On August 18, 2011, shareholders of NFI exercised approximately 89% of the rights issued pursuant to a non-cash rights offering of NFI, resulting in 443,790,704 Shares being issued and outstanding.

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. The Share consolidation reduced the number of Shares outstanding from 443,790,704 to 44,379,070.

The dividends declared in Fiscal 2012 and Fiscal 2011 were $33,075 ($0.75 per Share) and $26,081 ($1.33 per Share) respectively. Dividends of $4,567 were proposed or declared after December 30, 2012 but prior to the Statements being authorized for issue. These Statements do not reflect this dividend payable.

13. EARNINGS PER SHARE

		Fiscal 2012		Fiscal 2011 Restated (note 7)
Net earnings attributable to equity holders	$	9,758	$	15,949
Add: Interest expense on convertible debentures, net of tax		2,056		—
Net earnings used to determine diluted earnings per Share	$	11,814	$	15,949
Weighted average number of Shares in issue		44,379,070		19,680,192
Add: assumed conversion of convertible debentures		7,910,000		—
Weighted average number of Shares for calculation of diluted earnings per Share		52,289,070		19,680,192
Net earnings per Share (basic)	$	0.22	$	0.81
Net earnings per Share (diluted)	$	0.22	$	0.81

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

b) Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares using closing share price at the period end date. Dilution could occur either through exercise of the Conversion Option or the Debentures exchanged for Shares at Maturity Date at 95% of market price. Currently, the most dilutive method of conversion is the Company's right to redeem the Debentures in Shares at 95% of current market price. The Debentures are assumed to have been converted into Shares, and the net earnings are adjusted to eliminate the interest expense less the tax effect.

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

14. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)		**Fiscal 2012**		Fiscal 2011
Accounts receivable	$	2,390	$	(56,646)
Income taxes recoverable		—		1,505
Inventories		(31,221)		(10,609)
Prepaid expenses and deposits		353		119
Accounts payable and accrued liabilities		(1,379)		57,199
Income taxes payable		1,792		4,964
Deferred revenue		17,293		(25,671)
Provisions		(12,702)		(9,833)
Other		(529)		(23,164)
	$	(24,003)	$	(62,136)

15. EMPLOYEE BENEFITS

Defined benefit plan

The Company's subsidiary, NFI ULC, has a defined benefit plan which covers unionized employees. An actuarial valuation was last performed as at December 31, 2011. The next compulsory actuarial valuation as of December 31, 2012 will be completed in May 2013.

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

		December 30, 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		2,628		2,212
Actuarial gains (losses)		323		(691)
Employer’s contributions		7,336		4,870
Benefits paid		(3,105)		(1,283)
Foreign exchange		649		(795)
Plan assets at fair value — end of period		41,823		33,992
Change in defined benefit obligation				
Accrued benefit obligation — beginning of period		43,128		38,601
Current service cost		2,178		1,950
Interest cost		2,248		2,195
Benefits paid		(3,105)		(1,283)
Foreign exchange		861		(1,002)
Past service costs		1,762		—
Actuarial loss		3,724		2,667
Defined benefit obligation — end of period		50,796		43,128
Accrued benefit liability - present value of unfunded obligations	$	(8,973)	$	(9,136)

The history of experience adjustments is as follows.

		Fiscal 2012		Fiscal 2011
Experience adjustments on plan assets	$	323	$	(691)
Experience adjustments on plan liabilities		315		629

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

15. EMPLOYEE BENEFITS (Continued)

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

	Fiscal 2012	Fiscal 2011
Accrued benefit obligation - discount rate	4.50%	5.25%
Expected long-term rate of return on plan assets	7.00%	7.00%

If the discount rate decreased by 1% from the 4.50% discount rate used at December 30, 2012, the defined benefit obligation would increase by approximately 16.6%. Similarly, if the discount rate increased 1% then the obligation would decrease approximately 16.6%.

The expected long-term rate of return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the end of the reporting period. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on the plan assets for Fiscal 2012 was $2,951 (Fiscal 2011 $1,521).

The Company’s defined benefit plan is a fixed benefit plan and, as a result, the rate of compensation increases does not have any impact on the actuarially determined accrued benefit liability. Expected contributions to the defined benefit plan for the 52-week period ending December 29, 2013 are $7,500.

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

		Fiscal 2012		Fiscal 2011
Current service costs	$	2,178	$	1,950
Interest cost on accrued benefit obligations		2,248		2,195
Expected return on plan assets		(2,628)		(2,212)
Past service costs		1,762		—
Foreign exchange		(6)		(112)
Pension expense for the period	$	3,554	$	1,821

Net actuarial losses on defined benefit pension of $2,107 (net of income tax recovery of $1,294) and $1,990 (net of income tax recovery of $1,189) were recorded in other comprehensive loss during Fiscal 2012 and Fiscal 2011, respectively. Cumulatively, $6,958 (net of income tax recovery of $4,207) has been recorded in other comprehensive loss.

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

	December 30, 2012	January 1, 2012
Asset category		
Canadian equities	20.0%	20.5%
Foreign equities	29.9%	30.0%
Bonds	50.1%	49.5%
	100.0%	100.0%

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

15. EMPLOYEE BENEFITS (Continued)

Defined contribution pension plans

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

	Fiscal 2012	Fiscal 2011
Defined contribution pension expense	$ 1,958	$ 1,916

Cash payments contributed by the Company during Fiscal 2012 for its defined benefit and defined contribution pension plans amounted to $9,294 (2011: $6,786).

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Financial Instruments

The Company has made the following classifications:

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

(b) Fair value measurement of financial instruments

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

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

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

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

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

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

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Embedded Derivative - The fair value of the embedded derivative instrument was determined using public market data inputs which were observable and reliable such as the market prices of the Shares and IDSs, interest rates, forward market rates and credit spreads. All significant inputs, including benchmark interest rates and counterparty credit spreads, were derived from or corroborated by observable market data and therefore the embedded derivative instrument had been classified as Level 2.

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

The fair value is principally applied to financial assets and liabilities such as derivative instruments consisting of interest rate swaps and foreign exchange forward contracts and embedded derivatives. The following table provides a summary of financial assets and liabilities that are measured at fair value:

	December 30, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets	$ —	$ —	$ —	$ —
Liabilities				
Derivative financial instrument liabilities				
Foreign exchange forward contracts	$ —	$ 14	$ —	$ 14
Interest rate swap	—	1,976	—	1,976
	$ —	$ 1,990	$ —	$ 1,990

	January 1, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Derivative financial instrument asset Foreign exchange forward contracts	$ —	$ 145	$ —	$ 145
Embedded derivative instrument	—	3,684	—	3,684
	$ —	$ 3,829	$ —	$ 3,829
Liabilities				
Derivative financial instrument liabilities				
Interest rate swap	$ —	$ 2,811	$ —	$ 2,811

Convertible debentures - The fair values for disclosure purposes have been estimated using public market data inputs such as the market price of the convertible debentures. Estimated fair value amounts for the financial instruments that relate to the Company's debt that bear interest at fixed interest rates are as follows:

	Net Book Value December 30, 2012	**Fair Value December 30, 2012**	Net Book Value January 1, 2012	Fair Value January 1, 2012
Convertible debentures (including equity conversion option)	$ 60,601	$ 67,275	$ —	$ —
Subordinated Notes included in the IDS issue	—	—	30,547	32,098
Separate Subordinated Notes	—	—	26,948	28,198

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) Risk Management

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

Market risk (interest rate risk and foreign currency risk)

Market risk incorporates a range of risks. Movements in risk factors, such as interest rate risk and foreign currency risk, affect the fair values of financial assets and liabilities. The Company uses derivative financial instruments including interest rate swaps, foreign exchange options and forward foreign exchange contracts to manage its risks associated with potentially adverse changes in interest rates and foreign exchange rates. These instruments are financial contracts whose value depends on interest rates and foreign currency prices. The use of derivatives allows the transfer, modification and reduction of current and expected risks, including interest rate, foreign exchange and other market risks. The Company uses derivative financial instruments to manage interest rate and foreign exchange risks in accordance with its risk management policies.

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

Interest rate risk

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

In connection with the Credit Facility, the Company has an interest rate swap designed to hedge floating rate exposure for the term of the Credit Facility on $90,000 out of the $122,000 drawn term loan. The interest rate swap fixes the interest rate at 1.90% plus the applicable interest margin until April 2014 (maturity date). The fair value of the interest rate swap liability at December 30, 2012 is $1,976 (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 consolidated statements of financial position as a derivative financial instruments liability.

The interest rate swap is subject to interest rate risk. As an illustration, if interest rates at the consolidated statements of financial position date had been 100 basis points lower, with all other variables held constant, net earnings and total comprehensive income for Fiscal 2012 would have been higher by $712 (2011: $1,319), arising mainly as a result of the related fair value adjustment recorded due to lower interest rate. If interest rates had been 100 basis points higher, with all other variables held constant, net earnings and total comprehensive income for Fiscal 2012 would have been lower by $669 (2011: $1,285), arising mainly as a result of the related fair value adjustment recorded due to higher interest rate.

Foreign currency risk

The United States dollar is the Company's functional currency. Fluctuations in the exchange rate between the United States dollar and Canadian dollar will affect the Company's reported results. However, the impact of changes in foreign exchange rates on the Company's reported results differs over time depending on whether the Company is generating a net cash inflow or outflow of Canadian dollars. This is largely dependent on the Company's revenue mix by currency as operating costs denominated in Canadian dollars have been relatively stable. During Fiscal 2012, the Company generated a net outflow of Canadian dollars; as such, earnings from operations are negatively affected by a stronger Canadian dollar compared to the United States dollar. Also, to the extent the Company has borrowings that are denominated in Canadian dollars, its earnings before income taxes will be negatively affected by a stronger Canadian dollar compared to the United States dollar.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

During Fiscal 2012, the Company recorded realized foreign exchange gains of $2,812 (2011: $184). This was comprised of a $1,662 gain on settlement of foreign exchange contracts and a $1,150 foreign currency gain on translation of Canadian dollar denominated operations and dividends.

At December 30, 2012, the Company had $5.0 million foreign exchange forward contracts to buy Canadian dollars that expired in January 2013, the related liability of $14 (2011: $145 asset) is recorded on the consolidated statements of financial position as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts has been recorded in the consolidated statements of profit or loss and total comprehensive income.

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk, primarily Canadian dollar balances. As an illustration, at December 30, 2012, if the Canadian dollar had weakened 10 percent against the U.S. dollar, with all other variables held constant, net earnings for Fiscal 2012 would have been higher by $397 (2011: $3,787). Conversely, if the Canadian dollar had strengthened 10 percent against the U.S. dollar with all other variables held constant, net earnings would have been lower by $485 for Fiscal 2012 (2011: $3,097). The impact of fluctuations in the Canadian dollar in relation to the U.S. dollar has been significantly reduced as a result of the redemption of all of the outstanding Canadian denominated Subordinated Notes.

Liquidity risk

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

The following table outlines the Company's maturity analysis of the undiscounted cash flows of certain non-current financial liabilities and leases as at December 30, 2012:

US dollars in thousands	Total	2013	2014	2015	2016	2017	Post 2017
Senior term loan	$ 128,500	$ 5,000	$ 123,500	$ —	$ —	$ —	$ —
Convertible debentures	83,279	4,062	4,062	4,062	4,062	67,031	—
Finance leases	4,516	2,025	1,213	568	464	67	179
Operating leases	25,759	2,614	2,215	1,784	1,821	1,859	15,466
	$ 242,054	$ 13,701	$ 130,990	$ 6,414	$ 6,347	$ 68,957	$ 15,645

The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At December 30, 2012, the Company had a cash balance of $11,182 (January 1, 2012 $10,133) and had a $90,000 secured revolving credit facility. As at December 30, 2012, there was $40,035 of direct borrowings (January 1, 2012 $9,000) and $14,207 of outstanding letters of credits (January 1, 2012: $13,774) under this secured revolving credit facility.

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

Credit risk

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

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

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

During Fiscal 2012, the Company recorded a bad debt expense of $26 as compared to $28 bad debt expense in Fiscal 2011.

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

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

	December 30, 2012	January 1, 2012
Current, including holdbacks	$ 104,759	$ 110,563
Past due amounts but not impaired		
1 – 60 days	6,251	2,671
Greater than 60 days	2,525	2,665
Less: Allowance for doubtful accounts	(75)	(49)
Total accounts receivables, net	$ 113,460	$ 115,850

As at December 30, 2012, there was no amount that would otherwise be past due or impaired whose terms have been renegotiated.

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

(d) Capital management

The Company's objectives in managing capital are to deploy capital to provide an appropriate return to shareholders and holders of the Debentures and to maintain a capital structure that provides the flexibility to take advantage of growth and development opportunities, maintain existing assets, meet financial obligations and enhance the value of the Shares. The capital structure of the Company consists of cash, convertible debentures, long-term debt and shareholders' equity. The Company manages capital to ensure an appropriate balance between debt and equity.

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

There are certain financial covenants under the Credit Facility that must be maintained. These financial covenants include an interest coverage ratio and total leverage ratio. Beginning August 20, 2012, the senior leverage ratio was removed, the fixed charge coverage ratio was replaced by an interest coverage ratio of not less than 3.00 and the total leverage ratio was changed to less than 3.25 and will not include the Debentures. At December 30, 2012, the Company is in compliance with the new and revised ratios. The results of the financial covenants tests as of such date are as follows:

	December 30, 2012	January 1, 2012
Total Leverage Ratio (must be less than 3.25)	2.52	2.15
Interest Coverage Ratio (must be greater than 3.00)	4.23	—
Senior Leverage Ratio (previously required to be less than 2.50)	—	1.43
Fixed Charge Coverage Ratio (previously required to be greater than 1.10)	—	1.26

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

Capital management objectives are reviewed on an annual basis or when strategic capital transactions arise.

17. SEGMENT INFORMATION

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

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, gains and losses on the Company's interest rate swap, loss on debt repurchase and debt redemption. Corporate overhead costs are allocated fully to the Bus Operations segment.

The unallocated total assets of the Company primarily include cash, intangible assets, embedded derivative instrument, 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:

	Fiscal 2012			
	Bus Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 753,865	$ 119,050	$ —	$ 872,915
Operating costs and expenses	717,687	99,473	—	817,160
Earnings (loss) before income tax expense	36,178	19,577	(44,992)	10,763
Total assets	411,683	98,667	386,874	897,224
Addition of capital expenditures	10,726	72	—	10,798
Addition of goodwill and intangibles assets	—	174	—	174
Goodwill	148,483	53,685	—	202,168

	Fiscal 2011			
	Bus Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 810,417	$ 116,006	$ —	$ 926,423
Operating costs and expenses	736,204	92,531	—	828,735
Earnings (loss) before income tax expense	74,213	23,475	(71,000)	26,688
Total assets	380,516	97,232	392,714	870,462
Addition of capital expenditures	7,299	386	—	7,685
Addition of goodwill and intangibles assets	631	—	—	631
Goodwill	148,483	53,685	—	202,168

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

17. SEGMENT INFORMATION (Continued)

The allocation of revenue to geographic areas is as follows:

	Fiscal 2012	Fiscal 2011
United States	$ 713,354	$ 715,274
Canada	159,561	211,149
Total	$ 872,915	$ 926,423

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

	December 30, 2012	January 1, 2012
United States	$ 9,696	$ 10,005
Canada	32,328	27,392
Total	$ 42,024	$ 37,397

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

	Fiscal 2012	Fiscal 2011
Customer A	$ —	$ 101,656
Customer B	195,251	—

The revenue from these customers principally consists of revenue from the Bus Operations segment.

18. RELATED PARTY TRANSACTIONS

Included in accounts payable and accrued liabilities were $835 (2011: $603) relating to directors fees and defined benefit pension plan contributions paid subsequent to December 30, 2012.

Compensation of key management

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

	Fiscal 2012	Fiscal 2011
Salaries and short term employee benefits	$ 4,560	$ 3,871
Post-employment benefits	272	253
Share-based payment benefits	1,016	(2,005)
	$ 5,848	$ 2,119

Share-based payment benefits shown above represent the PSU, RSU and DSU expense (recovered) that was recorded in the period. During Fiscal 2011, the Company reversed a portion of the estimated cumulative expense recognized in previous years as a result of not satisfying the related non-market vesting condition. Included in the Fiscal 2011 PSU expense recovery (shown above) is $1,404 of PSUs that did vest at January 1, 2012 and were paid.

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

19. COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitments

The Company has leased real property with aggregate minimum lease payments of $25,759 (2011: $26,385) payable as follows:

2013	$	2,614
2014		2,215
2015		1,784
2016		1,821
2017		1,859
Thereafter		15,466
	$	25,759

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

(c) Through the normal course of operations, the Company has indemnified the surety companies providing surety bonds required under various contracts with customers. In the event that the Company fails to perform under a contract and the surety companies incur a cost on a surety bond, the Company is obligated to repay the costs incurred in relation to the claim up to the value of the bond. The Company's guarantee under each bond issued by the surety companies expires on completion of obligations under the customer contract to which the bond relates. The estimated maturity dates of the surety bonds outstanding at December 30, 2012 range from January 2013 to December 2013.

At December 30, 2012, outstanding surety bonds guaranteed by the Company totaled $52,030 (2011: $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.

(d) The Company has a letter of credit sub-facility of $55,000 as part of the $90,000 secured revolving credit facility. As at December 30, 2012, letters of credit totaling $14,207 (2011: $13,774) remain outstanding under the letter of credit facility as security for the following contractual obligations of the Company:

		December 30, 2012		January 1, 2012
Collateral to secure operating facility leases	$	284	$	278
Collateral to secure surety facilities		3,000		3,000
Customer performance guarantees		9,018		9,066
Collateral in support of self-insured workers compensation obligations		1,905		1,430

As at December 30, 2012, management believes that the Company was in compliance in all material respects with all applicable contractual obligations and the Company has not provided for any costs associated with these letters of credit.

20. GUARANTEES

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

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

21. PROVISIONS 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 the initial twelve-month period following delivery of the bus. The Company also frequently provides a parts supply 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 movements in the provision for warranty costs and other items during the periods are as follows:

	Warranty	Other	**Total**
January 2, 2011	$ 42,641	$ —	$ 42,641
Additions	15,772	1,605	17,377
Amounts used/realized	(26,435)	(1,605)	(28,040)
Unwinding of discount and effect of changes in the discount rate	122	—	122
Exchange differences	708	—	708
January 1, 2012	32,808	—	32,808
Additions	16,319	—	16,319
Amounts used/realized	(29,908)	—	(29,908)
Unwinding of discount and effect of changes in the discount rate	53	—	53
Exchange differences	834	—	834
December 30, 2012	$ 20,106	$ —	$ 20,106

Were claims costs to differ by 10% from management's estimates, the warranty provisions would be an estimated $2,011 higher or $2,011 lower.

22. SUPPLEMENTARY EXPENSE INFORMATION

	Fiscal 2012	Fiscal 2011
Employee benefit expense	$ 143,008	$ 139,988
Investment tax credits	—	(29,268)
Depreciation of plant and equipment	8,319	8,262
Amortization of intangible assets	16,007	15,981

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

23. SUBSEQUENT EVENTS

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

23. SUBSEQUENT EVENTS (Continued)

The Company plans to use the net proceeds of the Marcopolo investment to continue to support its future growth and diversification initiatives in accordance with the Company's strategic plan and for general corporate purposes.

The investment agreement permits Marcopolo to nominate a member to the Board while Marcopolo holds at least 10% of the outstanding Shares and grants Marcopolo pre-emptive rights to purchase additional securities in certain circumstances to maintain its proportionate interest in the Company. Marcopolo has agreed to certain disposition and standstill restrictions including a requirement to hold the Shares it acquires for a period of at least two years and a restriction on acquisitions of additional securities of the Company and certain other actions for a period of at least two years. The agreement also provides that if NFI in the future enters into an agreement with a third party providing for the acquisition of all of its Shares or assets, then Marcopolo will, subject to certain exceptions, agree to vote in favor of and to sell its Shares as part of the transaction unless Marcopolo has made an alternative proposal that the Board believes is superior or that the shareholders have determined to accept.

The two companies also signed a Memorandum of Understanding to explore opportunities to cooperate on engineering, technical, purchasing and operational matters, with a focus on reducing NFI's bus manufacturing and aftermarket part costs and enhancing NFI's competitiveness. The companies further agreed to assess Marcopolo's technology and products for possible introduction into the Canadian and U.S. markets through NFI as well as NFI's technology and products for potential distribution into global markets.

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

c) On March 1, 2013, the Company announced that NFI ULC acquired from Daimler Buses North America, Inc. certain assets and assumed customer and supplier contracts relating to the Orion aftermarket parts business for heavy-duty transit buses. The cash acquisition price was approximately $26.5 million (including an estimated $5.9 million for the purchase of accounts receivable), which reflects the post-closing working capital adjustments. The purchase price was funded by the proceeds from the equity investment by Marcopolo. Once the purchase price allocation has been finalized, goodwill will be recorded as the excess of the purchase price over the fair value assigned to identifiable assets and assumed liabilities and transaction costs will be expensed when the final amounts are determinable.