March 21, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS AND 52-WEEKS ENDED JANUARY 1, 2012

Information in this Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of NFI (as defined below) is supplemental to, and should be read in conjunction with, NFI's consolidated financial statements (including notes) (the "Financial Statement") for the 52-week period ended January 1, 2012 ("Fiscal 2011"). 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 and New Flyer Industries Canada ULC ("NFI ULC") available on SEDAR at www.sedar.com. The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and, except where otherwise indicated, are presented in U.S. dollars, representing the functional currency of NFI. Unless otherwise indicated, the financial information contained in this MD&A has been prepared in accordance with IFRS and references to "$" or "dollars" mean U.S. dollars.

MEANING OF CERTAIN REFERENCES

New Flyer Industries Inc. ("NFI"), an Ontario corporation, is the issuer of common shares ("Shares") and NFI ULC, an Alberta unlimited liability corporation, is the issuer of C$55.30 principal amount of 14% Subordinated Notes ("Subordinated Notes"), that, together with one Share form an income deposit security of the Issuer ("IDS"). As of January 1, 2012, 44,379,070 Shares were outstanding, 555,185 of which were represented by IDSs. Each IDS represents one Share and C$55.30 principal amount of Subordinated Notes. Unless otherwise stated or the context otherwise requires, references to the "Issuer" refer, collectively, to NFI and NFI ULC. References in this MD&A to "New Flyer" or the "Company" are to New Flyer Industries Inc. and its consolidated subsidiaries. References in this MD&A to "management" are to management of the Company and the Issuer.

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

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

Forward-looking Statements

Certain statements in this MD&A are "forward-looking statements", which reflect the expectations of management regarding the Issuer's and the Company's future growth, results of operations, performance and business prospects and opportunities. The words "believes", "anticipates", "plans", "expects", "intends", "projects", "estimates" and similar expressions are intended to identify forward-looking statements. These forward-looking statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this MD&A. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not or the times at or by which such performance or results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements. Such differences may be caused by factors which include, but are not limited to, competition in the heavy-duty transit bus industry, availability of funding to the Company's customers to purchase buses and to exercise options and to purchase parts or services at current levels or at all, aggressive competition and reduced pricing in the industry, material losses and costs may be incurred as a result of product warranty issues, material losses and costs may be incurred as a result of product liability claims, changes in Canadian or United States tax legislation, the Company's success depends on a limited number of key executives who the Company may not be able to adequately replace in the event that they leave the Company, the absence of fixed term customer contracts and the termination of contracts by customers for convenience, the current "Buy-America" legislation and certain Canadian content purchasing policies may change and/or become more onerous, production delays may result in liquidated damages under the Company's contracts with its customers, the Company's ability to execute its planned production targets as required for current business and operational needs, the Company's ability to generate cash from the planned reduction in excess work in process, currency fluctuations could adversely affect the Company's financial results or competitive position in the industry, the Company may not be able to maintain performance bonds or letters of credit required by its existing contracts or obtain performance bonds and letters of credit required for new contracts, third party debt service obligations may have important consequences to the Company, the covenants contained in the Company's senior credit facility and Subordinated Note indenture could impact the ability of the Company to fund distributions and take certain other actions, interest rates could change substantially and materially impact the Company's profitability, the dependence on limited sources of supply, the timely supply of materials from suppliers, the possibility of fluctuations in the market prices of the pension plan investments and discount rates used in the actuarial calculations will impact pension expense and funding requirements, the Company's profitability and performance can be adversely affected by increases in raw material and component costs, the availability of labour could have an impact on production levels, the ability of the Company to successfully execute strategic plans and maintain profitability and risks related to acquisitions. The Issuer cautions that this list of factors is not exhaustive. These factors and other risks and uncertainties are discussed in the Issuer's press releases and materials filed with the Canadian securities regulatory authorities and are available on SEDAR at www.sedar.com.

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

DEFINITIONS OF EBITDA, ADJUSTED EBITDA AND FREE CASH FLOW

References to "EBITDA" are to earnings before interest expense, income taxes, depreciation and amortization; losses or gains on disposal of property, plant and equipment; unrealized foreign exchange losses or gains on non-current monetary items and forward foreign exchange contracts; fair value adjustments to other liabilities – the former Class B common shares ("Class B Shares") and Class C common shares ("Class C Shares") of the company's subsidiary, New Flyer Holdings, Inc.; fair value adjustment to embedded derivatives and distributions on the former Class B Shares and Class C Shares. References to "Adjusted EBITDA" are to EBITDA after adjusting for: the effects of certain non-recurring and/or non-operations related items that have impacted the business and are not expected to recur, including business acquisition related costs, loss on debt repurchase, warranty expense assumed from the ISE Corporation ("ISE") bankruptcy, costs associated with assessing strategic and corporate initiatives and unrealized investment tax credits.

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

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

Business Overview

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

Industry Overview

Heavy-Duty Transit market

The availability of funding for transit agencies in the United States continues with uncertainty. The last long-term transportation bill expired in 2009. In the last two years, U.S. Congress has kept transportation aid flowing through a series of short-term extensions. The current authorization of SAFETEA-LU, the surface transportation authorizing law, will expire on March 31, 2012. Two bills have been introduced in the U.S. Congress that proposed annual transit funding at slightly above the current level. The U.S. Senate has approved their two year bill. Meanwhile, Republican Leaders and the Transportation & Infrastructure Committee were working to bolster support for a modified version of their five year, surface transportation authorization bill. The U.S. House of Representatives Committee of Ways and Means has proposed to eliminate the use of motor fuel tax revenues for public transportation, revenues that have been dedicated to public transportation for nearly 30 years. The transit industry strongly opposes this proposal and is urging U.S. Congress to leave fuel tax revenues untouched. That revised measure could be voted on by House members after they return March 19, 2012. If the U.S. Congress cannot pass a bill by this date another extension of the authorizing law will be required to allow funding of the Federal Transit Administration ("FTA") to continue.

Operating funds for U.S. transit agencies have also been severely impacted by the recession and have resulted in many transit agencies reducing service, increasing fares, and laying off employees. Others are attempting to off-set budget shortfalls with new revenue streams such as the sale of naming rights for stations and routes, advertising on transit system websites and advertising on buses. While state and local budgets remain challenged, there have been some positive signs recently. According to the Nelson Rockefeller Institute, preliminary data indicates that state tax collections for the third quarter of 2011 increased 7.3% over the previous year. State tax collections comprise of personal income tax and sales tax, both of which have increased for seven quarters, and corporate income taxes have increased for the past five quarters. 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.

In Canada, unlike the US, there is no central source of funding for bus procurements. Instead, funding of bus purchases comes from a patchwork of provincial funding, municipal funding, fare box revenue, various federal programs, and other smaller sources. Across Canada the funding approach varies widely from province to province and even from city to city within a single province.

Recent Ridership Trends

Ridership in both Canada and the United States has also begun to improve. According to American Public Transportation Association ("APTA"), 2011 U.S. annual ridership was at the second highest level since 1957 (the highest level was in 2008 during peak gas prices). During the fourth quarter of 2011 overall transit bus ridership increased 3.3% compared to the same period in 2010 and increased by 1.3% for all of 2011 versus 2010. While the largest increases were experienced by the smaller cities, 2011 was the first year since 2008 in which cities with populations greater than two million people experienced an increase in bus ridership. Management believes the increased ridership is a result of rising employment and higher gasoline prices. In addition, the Canadian Urban Transit Association ("CUTA") reported that ridership for all modes of public transportation increased by 4.9% in the first half of 2011 compared to the first half of 2010.

Demand for Heavy-Duty Transit Buses

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. New buses are generally ordered between six months to one year in advance of delivery, and because the funds for base order bus purchases under procurements are generally approved and allocated at the time the base order is made, cancellations are rare.

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. CUTA 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.

The Company tracks a "bid universe" or "pipeline" of anticipated heavy-duty transit bus order activity within a five-year horizon. This includes forecasted orders, active bids, active option quotations to be submitted and pending bid awards and option orders. While the pipeline has remained relatively stable over the past several years, it largely reflects the cumulative anticipated needs of the universe of transit bus customers, rather than funded opportunities. At January 1, 2012, there were approximately 13,300 EUs in New Flyer's new potential pipeline or bid universe for heavy-duty transit buses, a healthy increase from the approximately 11,400 EUs reported at October 2, 2011. The pipeline is expected to remain volatile as customers manage through fleet replacement planning and deal with budget uncertainty. The pipeline consists of bids in process, bids submitted and solicitations expected to be released by transit agencies. In 2011, there was an increase of in-house bid activity of roughly 50% in the second half of the year compared to bid activity in the first half of the year. This increase is a result of expected solicitations being released in the period by some large transit agencies seeking replacement and expansion buses, but have not yet been awarded.

The competitive landscape of the industry in the United States and Canada is limited to five major competitors including: New Flyer, Gillig Corporation, North American Bus Industries ("NABI"), Orion and Nova Bus. Several of New Flyer's competitors had insufficient orders to fill their open production slots in 2011 and 2012, as a result of not having built up a large order backlog in prior years. Two of these competitors were allegedly operating on reduced or alternating work weeks, and one competitor announcing an extended spring/summer shutdown at their bus shell manufacturing facility, which in turn created significant pricing pressure in 2011.

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).

New Flyer's aftermarket business experienced growth in order in-take (customer purchase orders) in the 13-week period ended January 1, 2012 ("2011 Q4") compared to both the previous quarter and the 13-week period ended January 2, 2011 ("2010 Q4"). Aftermarket order in-take has increased by approximately 18% and 22% compared to the 13-week period ended October 2, 2011 ("2011 Q3") and 2010 Q4, respectively. Fiscal 2011 order in-take has increased by approximately 7% compared to total order activity in 52-week period ended January 2, 2011 ("Fiscal 2010").

During Fiscal 2011, New Flyer sold 185 of the 226 used buses taken in trade under the City of Ottawa bus purchase contract in Fiscal 2010. The first 15 buses were sold to private and public transit operators and during 2011 Q4 the Company sold 170 of the used buses to a bus remanufacturer/distributor at slightly above book value. The remaining used buses have been retained, as New Flyer is currently negotiating the sale of the buses to certain interested parties. Management decided to sell the 170 buses to avoid further maintenance and storage costs as the market for used buses proved to be very limited. The international market did express considerable interest, but differences in specifications, emissions, fuel standards and restrictive import laws are some of the issues that created barriers to international sales. The U.S. and Canadian markets proved not to be an active market for the sale of used buses.

New Flyer's aftermarket parts and service segment has grown 8.9% over the last five years, even with a slight contraction of the aftermarket parts sector in Fiscal 2010, as transit systems began purchasing parts as needed rather than for inventory, primarily due to decreases in many customers' operating budgets.

As a result of the Company's increase of aftermarket sales in Fiscal 2011 compared to Fiscal 2010, combined with a contracting market, management believes that New Flyer's parts market share grew from 16% to 17%.

2011 Year in Review

Fiscal 2011 presented itself as another challenging year due to the struggling U.S. economy. Despite this, management was able to complete a number of strategic transactions during Fiscal 2011 that were critical to achieving the objective of evolving into a traditional common share structure. Management and the Board of Directors of NFI (the "Board") believe a traditional common share structure and a flexible senior credit facility is in the best interest of New Flyer, its investors and other stakeholders. A common share structure provides the flexibility needed to pursue strategic opportunities for continued long-term growth and diversification.

Amended and Restated Senior Credit Agreement

On July 27, 2011, the Company entered into an amended and restated credit agreement (the "Credit Facility") in the amount of $195.0 million. The Credit Facility refinanced New Flyer's former senior credit facility which was scheduled to mature in April 2012. The Credit Facility matures on April 24, 2014 and consists of a $105.0 million term loan (including a $15.0 million delayed draw loan) and a $90.0 million revolver (including a $55.0 million letter of credit sub-facility). The delayed draw loan is available to be drawn until July 27, 2012. The Company has withdrawn $4.0 million at the end of January 1, 2012 to finance certain capital expenditures to enhance manufacturing capabilities and intends to draw the remaining $11.0 million under the delayed draw loan for similar purposes.

As well, an accordion feature providing the Company with access to a further $75.0 million of term loan facilities to fund strategic growth and revenue diversification initiatives has been made available. The Company has drawn $17.0 million at the end of January 1, 2012, as described below.

In connection with the Credit Facility, the Company has rolled over the existing interest rate swap designed to hedge floating rate exposure for the term of the Credit Facility on $90.0 million out of the $111.0 million drawn term loan. The new interest rate swap fixes the interest rate at 1.90% plus the applicable interest margin until April 2014. In comparison, the interest rate swap in place prior to the closing of the Credit Facility fixed the interest rate at 2.61% plus the applicable interest margin until April 2012.

Non-cash rights offering and repurchase of Subordinated Notes

On August 18, 2011, shareholders of NFI exercised approximately 89% of the rights ("Rights") issued pursuant to the non-cash rights offering ("Offering"), resulting in 443,790,704 Shares being issued and outstanding. Each Right entitled the holder thereof to purchase nine (9) additional Shares on delivery of the Subordinated Note forming part of the IDS, resulting in a reduction in consolidated debt of C$242.3 million.

On September 30, 2011, shareholders of NFI 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 has reduced the number of Shares outstanding from 443,790,704 to 44,379,070 (including the Shares forming part of the IDSs that still remain outstanding as a result of holders not exercising the Rights issued pursuant to the Offering).

On December 9, 2011, NFI ULC announced the repurchase and cancellation of approximately C$15.7 million aggregate principal amount of Subordinated Notes for a purchase price of approximately 107% of the principal amount. The repurchase and related costs were financed by utilizing approximately $17.0 million of the accordion term loan feature available under the Credit Facility. Management expects that the cancellation of these Subordinated Notes will allow the Company to reduce its interest costs by approximately $1.3 million (on an annualized basis).

At January 1, 2012 there remains C$58.8 million of Subordinated Notes outstanding and held by third parties. Management anticipates utilizing its call option to redeem the remaining Subordinated Notes on August 19, 2012, subject to its ability to finance such redemption and the general financial and economic conditions.

As a result of the Credit Facility and the successful completion of the Offering, management believes it now has the financial flexibility to proactively investigate a number of strategic long-term growth and diversification opportunities.

Order activity during 2011 Q4 and Fiscal 2011

The 2011 Q4 order activity is comprised of 161 EUs. The order activity consisted primarily of conversions of options into firm orders that totaled 152 EUs, having an aggregate value of $64.4 million. Total order activity for the year ended Fiscal 2011 was 1,867 EUs consisting of new firm and new option orders of 659 EUs and exercised options of 1,208 EUs.

The low order activity for both 2011 Q4 and Fiscal 2011 resulted mainly from the reduction in industry orders for heavy-duty buses due to transit agencies experiencing budget constraints and deferring purchases of new buses. Management estimates that the industry as a whole initiated new order solicitations for approximately 5,700 EUs during 2011, however, less than 25% of these solicitations resulted in awards being made in the year. Over the past 24 months, new order activity has been down reduced due primarily to U.S. economic conditions and management estimates that the volume of new industry orders in 2011 was approximately 30% of the 2010 industry orders.

The total backlog at the end of 2011 Q4 was 7,097 EUs, a decrease of 8.1% from the backlog at the end of 2011 Q3. The firm portion of the total backlog at the end of 2011 Q4 was 1,476 EUs, compared with 1,785 EUs at the end of 2011 Q3. The value of the order backlog at the end of 2011 Q4 was $3.0 billion, compared with $3.3 billion at the end of 2011 Q3. This reduction 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 68% of the total.

Deliveries in 2011 Q4 were 470 EUs, an improvement of 28 EUs from 2011 Q3. Fiscal 2011 deliveries of 1,811 EUs have decreased from the 2,023 EUs delivered during the prior year. The Company's backlog permitted New Flyer to sustain production at an average rate of 36 EUs per production week in 2011 and, based on current forecasts, management expects to remain at this average rate per production week during the 52-week period ended December 30, 2012 (“Fiscal 2012”). The first quarter of Fiscal 2012 results will be negatively impacted by the planned extended vacation that occurred during the first week of January, 2012.

New Flyer delivered its 4,000th compressed natural gas (“CNG”) bus in December, 2011. The Company has been building CNG buses since 1994, longer than any other heavy-duty bus manufacturer in Canada or the U.S. Over the past two decades, New Flyer has developed tremendous expertise, and, as a result, its CNG system is incredibly robust with significant demonstrated success in revenue service. More than 60 transit systems operate New Flyer CNG buses today. This milestone is not only an opportunity to celebrate our success, this achievement comes at a critical time when our customers are experiencing both economic and environmental pressures, and their interest in alternative fuels continues to grow.

2012 Outlook

Management estimates that the heavy-duty bus manufacturers delivered approximately 5,150 EUs in 2011, which improves New Flyer's market share in Canada and the United States for 2011 to approximately 35%, an increase of 1% from its estimated market share of 34% for 2010. Management also estimates that at total of 1,650 EUs were awarded by transit agencies to industry manufacturers in 2011 and that the Company was awarded 46% of the contracts and 30% of such EUs. Management currently anticipates that for 2012, the total market size for both bus deliveries and parts are estimated to remain flat or may slightly decline.

New Flyer plans for its average manufacturing rate in Fiscal 2012 to remain at approximately 36 EUs per production week. The Company intends to maintain a consistent and balanced weekly line entry rate and may produce certain customers’ orders in advance of the original schedule. This is possible as a result of the Company’s order backlog and financial flexibility supported by the Credit Facility. Management estimates that the level of work in process inventory (“WIP”) will remain in the range of 200 to 230 EUs.

Management plans to continue its pursuit of operational excellence (“OpEx”) to further reduce the direct cost of bus manufacturing and to reduce overhead to allow for better cost competitiveness.

New Flyer continues to anticipate rationalization in the Canadian and United States bus manufacturing industry to occur in the coming years and 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 with the first 60-foot articulated buses now in production. Further, the Company will maintain its approach to selling parts and service solutions in an effort to assist customers in reducing their total costs of bus operation.

The collective agreement governing Winnipeg’s production union employees expires on March 31, 2012. The Company and the union leadership representing these production unit employees are currently negotiating a new collective agreement.

Fiscal 2011 and Fourth Quarter Financial Results

The Company achieved consolidated revenue of $256.9 million for 2011 Q4, an increase of 25.5% compared to consolidated revenue for 2010 Q4 of $204.8 million. The increase is primarily due to increased average selling price per equivalent unit which offset the impact caused by lower volumes, as the total bus deliveries of 470 EUs in 2011 Q4 decreased 5.8% when compared to 2010 Q4 deliveries of 499 EUs. Revenue from bus manufacturing operations for 2011 Q4 was $227.5 million, an increase of 26.3% from $180.2 million in 2010 Q4. The increased average selling price per equivalent unit resulted from a sales mix in 2011 Q4 that was comprised of mostly 40-foot buses as compared to a high percentage of articulated buses in 2010 Q4. The revenue from aftermarket operations in 2011 Q4 was $29.4 million compared to $24.6 million in 2010 Q4, which represents an increase of 19.5% as a result of some used bus sales and increased sales to U.S. customers.

For Fiscal 2011, the Company's consolidated revenue of $926.4 million decreased by 5.8% compared to consolidated revenue for Fiscal 2010 of $983.8 million. The Company experienced decreased volume in Fiscal 2011 due to a decline in market demand resulting from the continued downturn in the U.S. economy which caused funding challenges for the majority of U.S. state and local governments. In reacting to the decrease in new orders the Company utilized its backlog built up over the past five years to fill the majority of open build slots to maintain a production rate of 36 EUs per week in Fiscal 2011. As a result management priced new bids in a rational manner as opposed to simply reacting to aggressive competitive bids to maintain production volumes..

Fiscal 2011 bus manufacturing revenue contributed to the majority of the Company's consolidated revenue decrease as a result of lower delivery levels in Fiscal 2011 compared to Fiscal 2010 which was partially offset by an increase in the average bus selling price during Fiscal 2011. Bus manufacturing revenue during Fiscal 2011 totaled $810.4 million, a decrease of 7.7% from $878.1 million in Fiscal 2010. Bus deliveries in Fiscal 2011 totaled 1,811 EUs representing a decrease of 10.5% as compared to 2,023 EUs in Fiscal 2010 primarily resulting from a lower planned production volume when comparing the respective periods. Despite the reduced volume in Fiscal 2011 management believes that the Company has increased its market share in Canada and the United States to 35% (2010: 34%) in the bus manufacturing segment during a time when the current U.S. market has contracted approximately 13.1%. The average selling price of $447.5 thousand per EU during Fiscal 2011 increased 3.1% from the average price per EU of $434.1 thousand during Fiscal 2010. 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. Aftermarket operations revenue in Fiscal 2011 of $116.0 million increased 9.8% compared to $105.7 million in Fiscal 2010. The increase in Fiscal 2011 aftermarket operations revenue is primarily a result of $3.3 million in used bus sales, increased volumes and the favourable impact of the stronger Canadian dollar on translation of Canadian dollar sales to U.S. dollars.

Consolidated Adjusted EBITDA for 2011 Q4 totaled $15.9 million compared to $17.8 million in 2010 Q4 which represents a decrease of 11.0%. The decrease in 2011 Q4 consolidated Adjusted EBITDA is primarily due to a sales mix that included contract runs of lower average bus contract margins, negative impact of the appreciation in the value of the Canadian dollar compared to the U.S. dollar and a decrease in aftermarket earnings, offset somewhat by reductions in both cost of sales and compensation costs including incentive plans. 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. 2011 Q4 bus manufacturing operations Adjusted EBITDA of $10.8 million (4.7% of revenue) decreased by 14.3% compared to bus manufacturing operations Adjusted EBITDA of $12.6 million (7.0% of revenue) in 2010 Q4. 2011 Q4 aftermarket operations Adjusted EBITDA of $5.1 million (17.2% of revenue) decreased by 3.2% compared to $5.2 million (21.3% of revenue) in 2010 Q4, primarily due to lower profit margins and setup costs related to the new Eastern Canadian Parts Distribution Center offset by increased sales volumes within the current period.

Fiscal 2011 consolidated Adjusted EBITDA of $80.1 million decreased 17.7% compared to Fiscal 2010 consolidated Adjusted EBITDA of $97.3 million due to a number of factors, including: reduced deliveries 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 $56.6 million for Fiscal 2011 decreased 22.7% compared to $73.2 million for Fiscal 2010 bus manufacturing operations Adjusted EBITDA. This decrease of $16.6 million is primarily a result of $9.7 million due to decreased volume of bus sales (10.5% decrease in deliveries), $20.0 million due to a less favourable sales margin mix offset by an increase in investment tax credits realized and expense reductions. Aftermarket operations Adjusted EBITDA for Fiscal 2011 of $23.5 million represents a decrease of 2.4% over Fiscal 2010 aftermarket operations Adjusted EBITDA of $24.1 million.

The Company reported net earnings of $17.8 million in 2011 Q4 compared to net loss of $13.6 million in 2010 Q4 primarily due to the increase in earnings from operations, decrease in finance costs, decrease in expenses relating to ISE's bankruptcy in 2010 Q4 and a decrease in unrealized foreign exchange loss offset by the increase in income taxes in the current period.

Fiscal 2011 net earnings of $19.2 million increased compared to Fiscal 2010 net earnings of $2.4 million, primarily as a result of recognizing an increased amount of $26.5 million of investment tax credits, $11.6 million of decreased finance costs which offset the $15.2 million in increased current income tax expense. The reasons for the relatively large increase in current income taxes are primarily a result of a one-time income tax charges; $6.8 million as a result of recording investment tax credits of $29.3 million and $13.4 million charge which was imposed relating to the realization of a taxable gain on the refinancing of the Credit Facility and reallocation of previously applied foreign tax credits. The Company's net earnings (losses) can be subject to a high degree of volatility from fiscal period to fiscal period as a result of income taxes and non-cash accounting adjustments.

As a result of the Offering, management has adopted the disclosure of Free Cash Flow and has discontinued the disclosure of Distributable Cash and Payout Ratio. Management believes that this is consistent with the practice adopted by many income trusts after their conversion to common share operations. Free Cash Flow allows investors to asses New Flyer's ability to pay dividends to common shareholders, service debt, and meet other payment obligations, and is a common valuation measurement along with Adjusted EBITDA. See "Definition of EBITDA, Adjusted EBITDA and Free Cash Flow" above.

The Company generated negative Free Cash Flow of C$(0.9) million during 2011 Q4 while declaring dividends of C$9.5 million as compared to C$0.6 million of Free Cash Flow generated in 2010 Q4 and declared dividends of C$4.9 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. The benefit of the $23.8 million of unused investment tax credits is expected to be realized as cash inflows in the future. Although, the current Free Cash Flow generated is not sufficient, provisions have been made to sustain dividends until August 2012 when the Company expects to reduce the annualized dividend payment to approximately 50% of the previous annual IDS distribution level of $1.17 per IDS. During Fiscal 2011, New Flyer generated Free Cash Flow of C$11.0 million and declared dividends of C$26.0 million. 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. The benefit of the $23.8 million of unused investment tax credits is expected to be realized as cash inflows in the future. In comparison, Fiscal 2010 Free Cash Flow and declared dividends were C$30.1 million and C$19.2 million, respectively.

During 2011 Q4, the Company decreased its cash by $13.1 million primarily due to an increased investment in non-cash working capital items, such as increased accounts receivables partially offset by decreased inventories by reducing WIP level by 49 EUs in 2011 Q4.

During Fiscal 2011 Q4 the Company decreased its cash by $63.3 million primarily as a result of increasing the investment in non-cash working capital. The Company increased its investment in non-cash working capital by $62.1 million, resulting from increased accounts receivables and decreased deferred revenue which offset the increase in accounts payables. This was expected as the Ottawa OC Transpo contract at the end of Fiscal 2010 was cash favourable due to significant milestone payments received prior to the Fiscal 2010 year-end.

The January 1, 2012 liquidity position of $91.1 million is comprised of cash of $10.1 million and $81.0 million of available secured revolving credit facility. As at January 1, 2012, there were $9.0 million of direct borrowings and $13.8 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. All information in the table below has been restated in accordance with IFRS other than financial information with respect to the 53-week period ended January 3, 2010 ("Fiscal 2009") as it was prepared using Canadian Generally Accepted Accounting Principles ("Canadian GAAP").

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]
2011	Q4	$ 256,918	$ 30,063	$ 17,803	$ 35,214	$ 15,855	0.40
	Q3	229,308	15,764	15,074	18,228	22,206	0.62
	Q2	225,853	12,811	(7,319)	18,765	20,037	(1.48)
	Q1	214,344	14,991	(6,361)	20,943	21,989	(1.29)
	Total	**$ 926,423**	**$ 73,629**	**$ 19,197**	**$ 93,150**	**$ 80,087**	**0.98**
2010	Q4	$ 204,791	$ 2,894	$ (13,623)	$ 9,138	$ 17,822	(2.75)
	Q3	255,447	19,052	(3,215)	25,158	25,163	(0.65)
	Q2	280,540	27,284	33,167	33,183	33,310	6.97
	Q1	242,980	15,310	(13,928)	20,987	20,987	(2.94)
	Total	**$ 983,758**	**$ 64,540**	**$ 2,401**	**$ 88,466**	**$ 97,282**	**0.50**
2009[5]	Q4	$ 249,386	$ 19,249	$ (11,301)	$ 24,959	$ 24,959	(0.24)
	Q3	303,619	23,664	(9,190)	29,356	29,356	(0.19)
	Q2	273,512	17,423	(14,670)	22,682	22,682	(0.31)
	Q1	273,349	17,151	4,781	23,073	23,073	0.10
	Total	**$ 1,099,866**	**$ 77,487**	**$ (30,380)**	**$ 100,070**	**$ 100,070**	**(0.64)**

Fiscal Period	Quarter	Inventory, Beginning (equivalent units)[2]	New Line Entry (equivalent units)[2]	Deliveries (equivalent units)[2]	Inventory, Ending (equivalent units)[2]	Inventory comprised of: Work in process (equivalent units)[2]	Inventory comprised of: Finished goods (equivalent units)[2] & [4]
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**
2009	Q4	320	415	490	245	237	8
	Q3	403	533	616	320	309	11
	Q2	341	620	558	403	375	28
	Q1	284	650	593	341	300	41
	Total	**284**	**2,218**	**2,257**	**245**	**237**	**8**

COMPARISON OF 2011 AND 2010 ANNUAL AND FOURTH QUARTER RESULTS

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

	13-Weeks Ended January 1, 2012	13-Weeks Ended January 2, 2011	**52-weeks Ended January 1, 2012**	52-weeks Ended January 2, 2011
Statement of Earnings Data				
Revenue				
Canada	$ 30,195	$ 128,489	$ 173,858	$ 269,943
U.S.	197,295	51,686	636,559	608,139
Bus manufacturing operations	227,490	180,175	810,417	878,082
Canada	8,810	8,731	37,291	37,585
U.S.	20,618	15,885	78,715	68,091
Aftermarket operations	29,428	24,616	116,006	105,676
Total revenue	$ 256,918	$ 204,791	$ 926,423	$ 983,758
Earnings from operations	$ 30,063	$ 2,894	$ 73,629	$ 64,540
Earnings (loss) before finance costs and income taxes	31,863	(3,027)	68,654	49,655
Net earnings (loss)	17,803	(13,623)	19,197	2,401
EBITDA(1)	35,214	9,138	93,150	88,466
Adjusted EBITDA(1)				
Bus manufacturing operations including realized foreign exchange losses/gains	10,779	12,579	56,612	73,224
Aftermarket operations	5,076	5,243	23,475	24,058
Total Adjusted EBITDA(1)	$ 15,855	$ 17,822	$ 80,087	$ 97,282
Other Data (unaudited)				
Canada	70	390	455	729
U.S.	400	109	1,356	1,294
Total deliveries (equivalent units)(2)	470	499	1,811	2,023
Total capital expenditures	$ 3,167	$ 1,596	$ 8,689	$ 7,752
New options awarded	$ 4,429	$ 45,529	$ 209,747	$ 378,033
New firm orders awarded	6,284	70,475	86,650	371,709
Exercised options	64,389	30,759	525,728	344,945
Total firm orders	$ 70,673	$ 101,234	$ 612,378	$ 716,654

(Unaudited, US dollars in thousands)	**January 1, 2012**		January 2, 2011		January 3, 2010	
Selected Balance Sheet Data						
Total assets	$ 870,462		$ 848,933		$ 899,943	
Long-term financial liabilities	300,234		549,865		516,425	
Other Data (unaudited)		Equivalent Units(2)		Equivalent Units(2)		Equivalent Units(2)
Firm orders - USA	$ 585,517	1,305	$ 694,141	1,518	$ 884,347	1,876
Firm orders – Canada	72,390	171	138,517	379	93,407	206
Total firm orders	657,907	1,476	832,658	1,897	977,754	2,082
Options – USA	2,204,229	5,286	2,761,784	6,610	2,653,326	6,365
Options - Canada	139,275	335	83,713	205	217,042	543
Total options	2,343,504	5,621	2,845,497	6,815	2,870,368	6,908
Total Backlog	$ 3,001,411	7,097	$ 3,678,155	8,712	$ 3,848,122	8,990

Equivalent Units in Backlog (unaudited)	**52 Weeks Ended January 1, 2012**		52 Weeks Ended January 2, 2011		53 Weeks Ended January 3, 2010	
	Firm orders	Options	Firm orders	Options	Firm orders	Options
Beginning of period	1,897	6,815	2,082	6,908	2,498	7,033
New orders	182	477	1,013	914	444	1,402
Options exercised	1,208	(1,208)	825	(825)	1,397	(1,397)
Shipments	(1,811)	—	(2,023)	—	(2,257)	—
Cancelled/expired	—	(463)	—	(182)	—	(130)
End of period	1,476	5,621	1,897	6,815	2,082	6,908

At the beginning of Fiscal 2011 the backlog included options for 1,294 EUs that would have expired in 2011 if not exercised. The actual number of options that expired in Fiscal 2011 was 463 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:

2012	1,693
2013	2,782
2014	510
2015	520
2016	26
2017	90
Total options	5,621

Notes:

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

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

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

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

(5) Financial information was prepared in accordance with Canadian GAAP prior to transition to IFRS and has not been restated.

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 January 1, 2012	13-Weeks Ended January 2, 2011	52-weeks Ended January 1, 2012	52-weeks Ended January 2, 2011
Net earnings (loss)	$ 17,803	$ (13,623)	$ 19,197	$ 2,401
Addback[1]				
Income taxes	9,083	(2,191)	7,491	(6,284)
Interest expense	4,977	12,787	41,966	51,912
Amortization	6,308	6,244	24,243	24,058
Gain on disposal of property, plant and equipment	35	(7)	35	(23)
Fair value adjustment to embedded derivatives	(1,310)	(2,139)	1,153	(2,139)
Fair value adjustment to other liabilities – Class B Shares and Class C Shares	—	—	—	22
Distributions on Class B Shares and Class C Shares	—	—	—	1,626
Unrealized foreign exchange loss on non-current monetary items and forward foreign exchange contracts	(1,682)	8,067	(935)	16,893
EBITDA[2]	35,214	9,138	93,150	88,466
Costs associated with assessing strategic and corporate initiatives[7]	14	—	2,745	—
Loss on debt repurchase	1,157	—	4,722	—
Business acquisition related cost [3]	—	—	—	132
Unrealized investment tax credits	(20,530)	—	(20,530)	—
Warranty expense assumed from ISE bankruptcy [6]	—	8,684	—	8,684
Adjusted EBITDA [2]	$ 15,855	$ 17,822	$ 80,087	$ 97,282

RECONCILIATION OF CASH FLOW TO EBITDA AND ADJUSTED EBITDA

(Unaudited, US dollars in thousands)	13-Weeks Ended January 1, 2012	13-Weeks Ended January 2, 2011	52-weeks Ended January 1, 2012	52-weeks Ended January 2, 2011
Net cash generated by operating activities	$ (11,124)	$ 17,689	$ (38,470)	$ 70,710
Addback[(1)]				
Changes in non-cash working capital items	19,532	(16,244)	62,136	(41,660)
Defined benefit funding	1,110	1,120	4,870	4,224
Defined benefit expense	(452)	(144)	(1,821)	(1,391)
Interest paid	5,791	11,910	43,425	50,482
Loss on debt repurchase	(1,157)	—	(4,722)	—
Unrealized investment tax credits	20,530	—	20,530	—
Distributions on Class B Shares and Class C Shares	—	—	—	1,626
Warranty expense assumed from ISE bankruptcy	—	(8,684)	—	(8,684)
Foreign exchange gain on cash held in foreign currency	492	1,401	2,074	2,003
Income taxes paid[(4)]	492	2,090	5,128	11,156
EBITDA[(2)]	35,214	9,138	93,150	88,466
Costs associated with assessing strategic and corporate initiatives[(7)]	14	—	2,745	—
Loss on debt repurchase[(6)]	1,157	—	4,722	—
Business acquisition related cost [(3)]	—	—	—	132
Unrealized investment tax credits[(8)]	(20,530)	—	(20,530)	—
Warranty expense assumed from ISE bankruptcy [(5)]	—	8,684	—	8,684
Adjusted EBITDA [(2)]	$ 15,855	$ 17,822	$ 80,087	$ 97,282

Notes:

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

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

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

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

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

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

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

(8) The Company recognizes investment tax credits in Adjusted EBITDA during the period in which they are applied against income taxes payable. During Fiscal 2011, the Company recorded $32,504 of available investment tax credits, of which $29,268 were recorded in net earnings and $3,236 were recorded as accounts payables due to contractual obligations. However, only $8,738 relates to Adjusted EBITDA in Fiscal 2011 as this amount was applied against income taxes payable.

SUMMARY OF FREE CASH FLOW

As a result of the Offering, management has adopted the disclosure of Free Cash Flow and has discontinued the disclosure of Distributable Cash and Payout Ratio. Management believes that this is consistent practice used by the majority of income trusts after their conversion to common share corporations. Management uses Free Cash Flow as a non-IFRS measure to enable investors and analysts to asses New Flyer's ability to pay dividends to common shareholders, service debt, and meet other payment obligations. Free Cash Flow is also a common measure of a company's valuation and liquidity.

The Company generates its Free Cash Flow from its cash flows from operations and management expects this will continue to be the case for the foreseeable future. Net Cash flows generated by operating activities are significantly impacted by changes in non-cash working capital. The Company has a revolving credit facility to finance working capital and therefore has excluded the impact of working capital in calculating Free Cash Flow. As well, net cash generated by operating activities and net earnings are significantly affected by the volatility of current income taxes, which in turn produces temporary fluctuations in the determination of Free Cash Flow. For example in Fiscal 2011, a one-time income tax charge of $13.4 million (C$13.1 million) was imposed relating to the realization of a taxable gain on the refinancing of the credit facility and reallocation of previously applied foreign tax credits, which is equivalent to a reduction in Fiscal 2011 Free Cash Flow per common share of C$0.6656. A detailed reconciliation of Free Cash Flow to net cash generated by operating activities is shown in the table below.

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

(Unaudited, US dollars in thousands)	13-Weeks Ended January 1, 2012	13-Weeks Ended January 2, 2011	52-weeks Ended January 1, 2012	52-weeks Ended January 2, 2011
Net cash generated by operating activities	$ (11,124)	$ 17,689	$ (38,470)	$ 70,710
Changes in non-cash working capital items(3)	19,532	(16,967)	62,136	(40,034)
Interest paid(3)	5,791	12,538	43,425	50,482
Interest expense(3)	(5,152)	(13,027)	(40,751)	(52,229)
Income taxes paid(3)	492	2,185	5,128	11,156
Current income tax expense(3)	(10,291)	(2,160)	(21,647)	(6,400)
Principal portion of finance lease payments	(664)	(665)	(2,732)	(2,478)
Cash capital expenditures (9)	(708)	(1,342)	(3,684)	(7,254)
Proceeds from sale of redundant assets	35	7	35	23
Business acquisition related cost (6)	—	—	—	132
Costs associated with assessing strategic and corporate initiatives(8)	14	—	2,745	—
Defined benefit funding(4)	1,110	1,120	4,870	4,224
Defined benefit expense(4)	(452)	(144)	(1,821)	(1,391)
Foreign exchange gain on cash held in foreign currency(5)	492	1,401	2,074	2,003
Free Cash Flow (US$)(1)	(925)	635	11,308	28,944
U.S. exchange rate(2)	1.0188	1.0136	0.9733	1.0397
Free Cash Flow(1) (C$)	**(942)**	**644**	**11,006**	**30,094**
Free Cash Flow per Share (C$)(7)	(0.0212)	0.1302	0.5592	6.2095
Declared dividends on Shares (C$)	**9,542**	**4,896**	**26,048**	**19,227**
Declared dividend per Share (C$)(7)	$ 0.2150	$ 0.9896	$ 1.3236	$ 3.9673

(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 now being presented on the consolidated statement of cash flow net of interest and incomes taxes paid, whereas the change in non-cash working capital was previously presented net of accrued interest expense and income taxes.

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

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

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

(7) Per unit calculations for Free Cash Flow (C$) and declared dividends (C$) are determined by dividing these amounts by the total of all issued and outstanding Shares (including those held in the form of an IDS) using the weighted average over the period. To reflect the 10:1 Share consolidation, a retrospective application is required in calculating the basic and diluted earnings per share using the weighted average number of Shares outstanding for 2011 Q4 and Fiscal 2011 of 44,379,070 and 19,680,192, respectively. The weighted average number of Shares outstanding for 2010 Q4 and Fiscal 2010, was 4,947,528 and 4,846,423 respectively.

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

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

Dividend Policy

It is the Board's intent to have a common share dividend policy that is consistent with New Flyer's long-term financial performance and the need to retain certain cash flows to support the ongoing requirements of the business and to provide the financial flexibility to pursue revenue diversification and growth opportunities. Currently, the Board declares annual dividend payments of C$0.86 per Share. New Flyer currently anticipates establishing, no later than August 2012, an annualized dividend equal to approximately 50% of the previous annual IDS distribution level of C$1.17 per IDS. The previous IDS distribution consisted of an annual dividend payment of C$0.396 per Share and an annual interest payment of C$0.774 per C$5.53 principal amount of Subordinated Notes.

Compared to other common share issuers listed on the TSX, the Board believes this level of dividend will provide investors with an attractive level of current income. This new dividend policy reflects a shift from the previous distribution policy, pursuant to which substantially all of New Flyer's available cash flow was distributed to IDS holders. The Board believes that this new dividend level will enhance the financial flexibility of New Flyer to fund growth capital expenditures, acquisitions and other internal financing needs.

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

Currency Impact on the Company's Reported Results

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

As at January 1, 2012, 11.0% (2010: 16.6%) of the Company's firm order backlog consisted of orders representing Canadian dollar-denominated revenue. Based on this current backlog position and the Company's historically stable Canadian dollar-denominated operating costs, management expects the Company to generate a net Canadian dollar cash outflow during Fiscal 2012 primarily as a result of the higher percentage of U.S. dollar denominated orders in the Company's backlog.

The settlements of the forward contracts were recorded as realized foreign exchange gains or losses in net earnings for the reported periods as the Company has elected not to use hedge accounting. During Fiscal 2011, the Company recorded realized foreign exchange gains of $0.2 million (2010: $1.7 million). This was comprised of $1.5 million loss on settlement of foreign exchange contracts and a $1.7 million foreign currency gain on translation of Canadian dollar denominated operations and distributions.

At January 1, 2012, the Company had $17.0 million foreign exchange forward contracts to buy Canadian dollars that range in expiry dates from January to April 2012. The related asset of $0.1 million (2010: $0.01 million) is recorded on the statement of financial position as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts has been recorded in the consolidated statement of comprehensive loss.

Fiscal and Interim Periods

The Company's 2011 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 3, 2011 to January 1, 2012 (Fiscal 2011)		**Period from January 4, 2010 to January 2, 2011 (Fiscal 2010)**	
	Period End Date	# of Weeks	Period End Date	# of Weeks
Quarter 1	April 3, 2011	13	April 4, 2010	13
Quarter 2	July 3, 2011	13	July 4, 2010	13
Quarter 3	October 2, 2011	13	October 3, 2010	13
Quarter 4	January 1, 2012	13	January 2, 2011	13
Fiscal year	January 1, 2012	52	January 2, 2011	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)	**2011 Q4 (13-Weeks)**	**2010 Q4 (13-Weeks)**	**Fiscal 2011 (52-Weeks)**	**Fiscal 2010 (52-Weeks)**
Bus Manufacturing Revenue	$ 227,490	$ 180,175	$ 810,417	$ 878,082
Aftermarket Revenue	29,428	24,616	116,006	105,676
Total Revenue	$ 256,918	$ 204,791	$ 926,423	$ 983,758
Earnings from operations	30,063	2,894	73,629	64,540
Earnings (loss) before finance costs and income taxes	31,863	(3,027)	68,654	49,655
Earnings (loss) before income taxes	26,886	(15,814)	26,688	(3,883)
Net earnings (loss) for the period	17,803	(13,623)	19,197	2,401

Revenue

The consolidated revenue for 2011 Q4 of $256.9 million increased 25.5% from the consolidated revenue for 2010 Q4 of $204.8 million, and the consolidated revenue for Fiscal 2011 of $926.4 million decreased 5.8% from the consolidated revenue for Fiscal 2010 of $983.8 million.

Revenue from bus manufacturing operations for 2011 Q4 was $227.5 million, which increased 26.3% from $180.2 million in 2010 Q4, and revenue of $810.4 million for Fiscal 2011 decreased 7.7% from $878.1 million for Fiscal 2010. The increase in 2011 Q4 revenue primarily resulted from an increase in the average bus selling price during 2011 Q4 as the number of deliveries in 2011 Q4 decreased compared to 2010 Q4. The increase in average bus selling price is attributed to a mix of products sold with a higher selling price. Total bus deliveries of 470 EUs in 2011 Q4 decreased 5.8% when compared to 2010 Q4 deliveries of 499 EUs. The decrease in revenue from bus manufacturing operations for Fiscal 2011 primarily resulted from fewer deliveries in Fiscal 2011 compared to Fiscal 2010 offset by an increase in the average bus selling price during Fiscal 2011. Bus deliveries in Fiscal 2011 totaled 1,811 EUs representing a decrease of 10.5% as compared to 2,023 EUs in Fiscal 2010 primarily resulting from lower production volume when comparing the respective periods. The Fiscal 2011 volume decrease is mostly due to reduced market demand. The average selling price of $447.50 thousand per EU during Fiscal 2011 increased 3.1% from the average price per EU of $434.1 thousand during Fiscal 2010. This increase in average selling price is the result of changes in the product sales mix, which included more sales of hybrid buses and less articulated buses.

The revenue from aftermarket operations in 2011 Q4 was $29.4 million compared to $24.6 million in 2010 Q4, which represents an increase of 19.5%, while the aftermarket operations revenue in Fiscal 2011 of $116.0 million increased 9.8% compared to $105.7 million in Fiscal 2010. The increase in Fiscal 2011 aftermarket operations revenue is primarily a result of $3.3 million of used bus sales, increased volumes and the favourable impact of the stronger Canadian dollar on translation of Canadian dollar sales to U.S. dollars.

Cost of sales

The consolidated cost of sales for 2011 Q4 of $215.6 million increased by 19.2% from 2010 Q4 consolidated cost of sales of $180.8 million. Fiscal 2011 consolidated cost of sales of $811.5 million decreased by 6.2% from Fiscal 2010 of $865.3 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 2011 Q4 were $194.1 million compared to $163.9 million in 2010 Q4, an increase of 18.4%. The cost of sales from bus manufacturing operations for Fiscal 2011 was $729.4 million as compared to $793.5 million in Fiscal 2010, representing a decrease of 8.1%. This decrease in cost of sales primarily relates to 10.5% fewer deliveries in Fiscal 2011 as compared to Fiscal 2010, reduction of material costs and manufacturing overhead achieved through OpEx and the positive impact from recognizing investment tax credits.

The cost of sales from aftermarket operations were $21.5 million in 2011 Q4 compared to $16.9 million in 2010 Q4, representing an increase of 27.2%, primarily due to the corresponding increase in revenue. The cost of sales from aftermarket operations in Fiscal 2011 of $82.1 million increased 14.3% compared to $71.8 million in Fiscal 2010 primarily as a result of the increase in sales volumes, cost of used buses sold and a mix of higher dollar items sold when comparing the two periods.

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

The consolidated selling, general and administrative costs and other expenses for 2011 Q4 of $8.1 million decreased 38.2% compared with $13.1 million in 2010 Q4. Consolidated selling, general and administrative costs and other expenses for Fiscal 2011 were $41.5 million which decreased by 11.6% compared with $47.0 million in Fiscal 2010. The decrease in Fiscal 2011 SG&A costs is primarily a result of the positive impact of compensation cost reductions which resulted from employment reductions in December 2010 and March 2011 and lower incentive plan expenses in Fiscal 2011 which offset the $2.7 million of incremental costs to explore and assess strategic and corporate initiatives and $0.9 million dollars of related severance costs.

Realized foreign exchange loss (gain)

In 2011 Q4, the Company recognized a net realized loss of $3.2 million compared with a net realized gain of $0.7 million in 2010 Q4. In Fiscal 2011, the Company recognized a net realized gain of $0.2 million as compared with a net realized gain of $1.7 million in

Fiscal 2010. The decrease in realized foreign exchange gain is primarily as a result of realization of foreign exchange gains on working capital accounts offset by unfavourable settlements of foreign exchange transactions.

Earnings from operations

The consolidated earnings from operations for 2011 Q4 in the amount of $30.1 million (11.7% of revenue) increased compared to earnings from operations in 2010 Q4 of $2.9 million (1.4% of revenue). In Fiscal 2011, the consolidated earnings from operations of $73.6 million (7.9% of revenue) increased 14.1% compared to $64.5 million (6.6% of revenue) in Fiscal 2010.

The earnings from bus manufacturing operations for 2011 Q4 were $25.0 million compared to a loss from bus operations of $2.3 million for 2010 Q4 (11.0% and -1.3%, respectively, of bus manufacturing revenue). The increase in earnings during 2011 Q4 is a result of recognizing $23.8 million investment tax credits as compared to 2010 Q4 when the Company recorded an additional $8.7 million of warranty expense assumed from ISE's bankruptcy. In Fiscal 2011, the earnings from bus manufacturing operations were $50.1 million (6.2% of revenue) as compared to $40.4 million (4.6% of revenue) in Fiscal 2010, which represents a 24.0% increase. The increase results primarily from recognizing an increase in $26.6 million investment tax credits, $8.7 million of additional ISE warranty recorded in Fiscal 2010 partially offset by lower profit margins due to sales mix and 10.5% fewer deliveries in Fiscal 2011 as compared to Fiscal 2010.

The earnings from aftermarket operations of $5.1 million in 2011 Q4 decreased by 3.2% compared to 2010 Q4 earnings of $5.2 million. 2011 Q4 operations margin of 17.2% decreased as compared to 21.3% in 2010 Q4. In Fiscal 2011, the earnings from aftermarket operations were $23.5 million (20.2% of revenue), which represents a 2.4% decrease as compared to $24.1 million (22.8% of revenue) in Fiscal 2010. The decrease is primarily due to the general tightening of margins during the period offset by the used bus sales and the impact of the stronger Canadian dollar compared to the U.S. dollar.

Unrealized foreign exchange loss

Unrealized foreign currency losses arise primarily from the revaluation of the Canadian dollar-denominated long-term debt and forward foreign exchange contracts. In 2011 Q4, the Company recognized a net unrealized gain of $1.7 million compared to a net unrealized loss of $8.1 million in 2010 Q4. During Fiscal 2011, the Company recognized a net unrealized gain of $0.9 million compared to a net unrealized loss of $16.9 million in Fiscal 2010. These results consist of the following:

(Unaudited, US dollars in thousands)	2011 Q4	2010 Q4	Fiscal 2011	Fiscal 2010
Unrealized loss (gain) on Canadian-denominated long-term debt	$ 1,694	$ 8,022	$ (503)	$ 16,734
Unrealized loss (gain) on forward foreign exchanges contracts	(2,961)	129	(137)	412
Unrealized (gain) loss on other non-monetary assets/liabilities	(415)	(84)	(295)	(253)
	$ (1,682)	$ 8,067	$ (935)	$ 16,893

Earnings before finance costs and income taxes (EBIT)

In 2011 Q4, the Company recorded EBIT of $31.9 million compared to loss before finance costs and income taxes of $3.0 million in 2010 Q4. The Company recorded EBIT of $68.7 million in Fiscal 2011 compared to EBIT of $49.7 million in Fiscal 2010. EBIT have been impacted by non-cash items as follows:

(U.S. dollars in thousands)	2011 Q4	2010 Q4	Fiscal 2011	Fiscal 2010
Non-cash and non-recurring charges (recovery):				
Fair value adjustment to other liabilities, Class B Shares and Class C Shares	$ —	$ —	$ —	$ 22
Warranty expense assumed from ISE bankruptcy	—	8,684	—	8,684
Fair value adjustment to embedded derivatives	(1,310)	(2,139)	1,153	(2,139)
Costs associated with assessing strategic and corporate initiatives	14	—	2,745	—
Loss on debt repurchase	1,157	—	4,722	—
Unrealized investment tax credits	(20,530)	—	(20,530)	—
Unrealized foreign exchange (gain) loss	(1,682)	8,067	(935)	16,893
Loss (gain) on disposition of property, plant and equipment	35	(7)	35	(23)
Depreciation and amortization	6,308	6,244	24,243	24,058
Total non-cash and non-recurring charges:	$ (16,008)	$ 20,849	$ 11,433	$ 47,495

The most significant non-cash and non-recurring charges/recoveries are the unrealized foreign exchange loss on the Canadian-denominated long-term debt, the unrealized investment tax credits and the one-time charge relating to the warranty expense assumed by the Company as a result of ISE's bankruptcy.

Absent these non-cash charges/recoveries, the 2011 Q4 EBIT would have been $15.9 million compared to $17.8 million in 2010 Q4, and $80.1 million in Fiscal 2011 compared to $97.2 million in Fiscal 2010.

Finance costs (including distributions on Class B Shares and Class C Shares)

The finance costs for 2011 Q4 was $5.0 million, which decreased 61.1% when compared to $12.8 million in 2010 Q4, primarily due to a $8.9 million decrease in the interest on the Subordinated Notes as a result of the Subordinated Notes repurchased in November 2011 and as part of the Offering.

The finance costs of $42.0 million in Fiscal 2011 decreased 21.6% as compared to $53.5 million in Fiscal 2010. The decrease of $11.5 million of interest on long-term debt is mostly due to a decrease in C$258.0 million of Subordinated Notes in Fiscal 2011.

Earnings (loss) before income taxes

Earnings before income taxes for 2011 Q4 was $26.9 million compared to loss before income taxes of $15.8 million in 2010 Q4 and earnings before income taxes for Fiscal 2011 was $26.7 million compared to loss before income taxes of $3.9 million in Fiscal 2010. 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

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

The income tax expense for 2011 Q4 was $9.1 million, consisting of $10.3 million of current income tax expense and $1.2 million of deferred income tax recovered.

Fiscal 2011 resulted in a $7.5 million income tax expense in comparison to an income tax recovery of $6.3 million in Fiscal 2010. This increase in income tax expense when comparing the two periods consisted of a $15.2 million increase in current income taxes offset by a $1.5 million increase in deferred income taxes recovered. The reasons for the relatively large increase in current income taxes are primarily a result of a one-time income tax charges; $6.8 million as a result of recording investment tax credit of $29.3 million and $13.4 million charge which was imposed relating to the realization of a taxable gain on the refinancing of the Credit Facility and reallocation of previously applied foreign tax credits.

Net earnings (loss)

The Company reported net earnings of $17.8 million in 2011 Q4 compared to net loss of $13.6 million in 2010 Q4. The increase in net earnings in 2011 Q4 is primarily attributable to the increase in earnings before income taxes partially offset by an increase in income taxes as noted above. Similarly, net earnings of $19.2 million in Fiscal 2011 increased compared to the $2.4 million net earnings in Fiscal 2010. The Company's net earnings (losses) can be subject to a high degree of volatility from one fiscal period to the next as a result of non-cash and non-recurring charges and income taxes.

Cash Flow

The cash flows of the Company are summarized as follows:

(Unaudited, US dollars in thousands)	2011 Q4	2010 Q4	Fiscal 2011	Fiscal 2010
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	$ 14,691	$ 15,445	$ 72,219	$ 90,688
Changes in non-cash working capital items	(19,532)	16,967	(62,136)	41,660
Interest paid	(5,791)	(12,538)	(43,425)	(50,482)
Income taxes paid	(492)	(2,185)	(5,128)	(11,156)
Cash flow from operating activities	(11,124)	17,689	(38,470)	70,710
Cash flow from financing activities	437	(5,463)	(18,653)	(21,630)
Cash flow from investing activities	(2,866)	(1,335)	(8,281)	(8,316)

Cash flows from operating activities

The 2011 Q4 net operating cash outflows of $11.1 million is the result of an increase of $19.5 million in non-cash working capital partially offset by $8.4 million of net cash earnings, compared to 2010 Q4 net operating cash inflow of $17.7 million which resulted from $0.7 million of net cash earnings and a decrease of $17.0 million in non-cash working capital. The 2011 Q4 non-cash working capital changes that are primarily responsible for the significant outflow during the period are due to an increase in accounts receivables partially offset by a decrease in inventory.

The Fiscal 2011 net cash operating outflow of $38.5 million is the result of an increase of $62.1 million in non-cash working capital partially offset by $23.6 million of net cash earnings compared to Fiscal 2010 net cash operating inflow of $70.7 million, resulting from $30.7 million of net cash earnings and a decrease of $40.0 million in non-cash working capital. The Fiscal 2011 non-cash working capital changes that are primarily responsible for the significant outflow are due to increased accounts receivables and decrease in deferred revenue partially offset by decreased inventories. This was expected as the Ottawa contract at the end of Fiscal 2010 was very cash favourable due to significant milestone payments received prior to Fiscal 2010 year-end.

Cash flow from financing activities

The Company's financing activities resulted in a net cash inflow of $0.4 million and outflow of $5.5 million for 2011 Q4 and 2010 Q4, respectively. The increased cash flow primarily relates to $26.0 million of proceeds from new draws on the Credit Facility to fund working capital needs, growth capital expenditures and $15.4 million used to repurchase Subordinated Notes which offset the $4.5 million of increased dividends paid.

The Company's financing activities for Fiscal 2011 resulted in a net cash outflow of $18.7 million, compared to Fiscal 2010 net cash outflow of $21.7 million. The primary factors of this decrease are a result of the $30.0 million of cash generated by new senior credit facility proceeds which was partially used to repurchase Subordinated Notes offset by increased dividend payments of $24.6 million compared to $18.5 million in Fiscal 2010 as a result of the new Shares issued in connection with the Offering. It should be noted that there were $4.6 million of costs associated with the Share issuance.

Cash flow from investing activities

2011 Q4 investing activities resulted in a net cash outflow of $2.9 million compared to $1.3 million in 2010 Q4, and a net cash outflow of $8.3 million in Fiscal 2011 compared to $8.3 million in Fiscal 2010. The Company's investing activities for 2011 Q4 includes investment in upgrading the St. Cloud manufacturing plant to produce CNG buses (due to higher demand for this product) and an initial portion required to develop a small parts paint system, both of which were funded by delayed draw loan. As well, the Company's investing activities for Fiscal 2011 includes the acquisition of $0.6 million of intellectual property pursuant to a license agreement with Bluways USA, Inc. and Fiscal 2010 included the acquisition of the assets and business of TCB Industries, LLC for $1.1 million.

During 2011 Q3, the Company borrowed $4.0 million from its delayed draw loan portion of the Credit Facility. Proceeds from the loan were used to purchase growth capital expenditures in both 2011 Q3 and 2011 Q4.

The composition of the capital expenditures was as follows:

(Unaudited, US dollars in thousands)	2011 Q4	2010 Q4	Fiscal 2011	Fiscal 2010
Capital expenditures	$ 3,167	$ 1,596	$ 8,689	$ 7,752
Less capital expenditures funded by delayed draw loan for asset acquisitions	(2,192)	—	(4,000)	—
Less capital expenditures funded by capital leases	(267)	(254)	(1,005)	(498)
Cash capital expenditure	708	1,342	3,684	7,254
Comprised of:				
Maintenance capital expenditures	283	774	2,015	3,352
Growth capital expenditures	425	568	1,669	3,902
	708	1,342	3,684	7,254

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 negative Free Cash Flow of C$(0.9) million during 2011 Q4 while declaring dividends of C$9.5 million as compared to C$0.6 million of Free Cash Flow generated in 2010 Q4 and declared dividends of C$4.9 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. The benefit of the $23.8 million of unused investment tax credits is expected to be realized as cash inflows in the future. Although, the current Free Cash Flow generated is not sufficient, provisions have been made to sustain dividends until August 2012 when the Company expects to reduce the annualized dividend payment to approximately 50% of the previous annual IDS distribution level of $1.17 per IDS. During Fiscal 2011, New Flyer generated Free Cash Flow of C$11.0 million and declared dividends of C$26.0 million. 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. The benefit of the $23.8 million of unused investment tax credits is expected to be realized as cash inflows in the future. In comparison, Fiscal 2010 Free Cash Flow and declared dividends were C$30.1 million and C$19.2 million, respectively.

During 2011 Q4, the Company decreased its cash by $13.1 million primarily due to increase investment in non-cash working capital items, such as increased accounts receivables partially offset by decreased inventories by reducing WIP level by 49 EUs in 2011 Q4.

During Fiscal 2011 Q4 the Company decreased its cash by $63.3 million primarily as a result of increasing the investment in non-cash working capital. The Company increased its investment in non-cash working capital by $62.1 million, primarily as a result of increased accounts receivables, decreased deferred revenue which offset the increase in accounts payables. This was expected as the Ottawa OC Transpo contract at the end of Fiscal 2010 was cash favourable due to significant milestone payments received prior to Fiscal 2010 year-end.

The January 1, 2012 liquidity position of $91.1 million is comprised of cash of $10.1 million and $81.0 million of available secured revolving credit facility. As at January 1, 2012, there were $9.0 million of direct borrowings and $13.8 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.

As at January 1, 2012, the Company was in compliance in all material respects with the financial covenants of the Credit Facility.

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

(Unaudited)	January 1, 2012	October 2, 2011	January 2, 2011
Senior Leverage Ratio (must be less than 2.50) (1)	1.43	0.92	0.27
Total Leverage Ratio (must be less than 4.75) (2)	2.15	1.79	3.82
Fixed Charge Coverage Ratio (must be greater than 1.10)	1.26	1.22	1.47

(1) Increased from 2.25 effective August 19, 2011 under the Credit Facility.

(2) Decreased from 5.25 effective August 19, 2011 under the Credit Facility.

Interest rate risk

In connection with the Credit Facility, the Company has an interest rate swap designed to hedge floating rate exposure to manage interest rate risk relating to potentially adverse changes in the LIBOR rate on $90.0 million out of the $111.0 million of the drawn term credit facility. The interest rate swap fixes the interest rate at 1.90% plus the applicable interest margin until April 2014. The fair value of the interest rate swap liability of $2,811 at January 1, 2012 (January 2, 2011: $2,510) was recorded on the consolidated statements of financial position as a derivative financial instruments liability is and the change in fair value has been recorded as finance costs for the reported period.

Credit risk

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

The carrying amount of accounts receivable is reduced through the use of an allowance account and the amount of the loss is recognized in the earnings statement within 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 sales, general and administration costs and other operating expenses in the consolidated statements of net earnings and comprehensive income (loss).

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

	January 1, 2012	**January 2, 2011**
Current, including holdbacks	$ 110,563	$ 49,812
Past due amounts but not impaired		
1 – 60 days	2,671	4,494
Greater than 60 days	2,665	4,919
Less: allowance for doubtful accounts	(49)	(21)
Total accounts receivables, net	$ 115,850	$ 59,204

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 are the contractual maturities of the undiscounted cash flows of New Flyer's certain non-current financial liabilities and leases as at January 1, 2012:

(US dollars in thousands)	Total	2012	2013	2014	2015	2016	Post 2016
Senior term loan	$ 121,500	$ 4,500	$ 4,500	$ 112,500	$ —	$ —	$ —
Subordinated Notes included in IDS issue	68,150	4,310	4,310	4,310	4,310	4,310	46,600
Separate Subordinated Notes	59,900	3,790	3,790	3,790	3,790	3,790	40,950
Finance leases	4,796	2,583	1,488	666	47	12	—
Operating leases	26,385	3,050	2,237	2,027	1,784	1,821	15,466
	$ 280,731	$ 18,233	$ 16,325	$ 123,293	$ 9,931	$ 9,933	$ 103,016

As at January 1, 2012, outstanding surety bonds guaranteed by the Company amounted to $32.0 million, representing an increase compared to $28.6 million at January 2, 2011. The estimated maturity dates of the surety bonds outstanding at January 1, 2012 range from January 2012 to March 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 January 1, 2012, letters of credit amounting to $13.8 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	$ 278
Collateral to secure surety facilities	3,000
Customer performance guarantees	9,066
Collateral in support of self-insured workers' compensation obligations	1,430

Effect of transition to IFRS on financial performance relating to the adoption of different accounting standards

For a detailed description of the impact of the changes resulting from the transition to IFRS, see note 21 of the Financial Statements (including the reconciliations presented in such note).

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 on Transfer of Financial Assets and Offsetting:

This amendment requires that the Company provide the disclosures for all transferred financial assets that are not derecognized and for a continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred effective for annual periods beginning on or after July 1, 2011. Management does not expect a material impact to the financial statements as a result of adopting this standard.

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

Retrospective application is required, for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. Management has not yet evaluated the impact on the financial statements.

As part of the above IFRS 7 amendment, aspects of IAS 32, Financial Instruments: Presentation, was also clarified. The amendments to IAS 32 address inconsistencies in current practice when applying the requirements. The amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively

IFRS 9 Financial Instruments:

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

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

IAS 19 (Revised 2011) Employee Benefits:

The main change to the standard are the elimination of the corridor approach (with all changes to the defined benefit obligation and plan assets recognized when they occur) and calculation of net interest using a high quality corporate bond yield. Retrospective application is required with certain exceptions, effective January 1, 2013. Management has not yet evaluated the impact on the financial statements.

IFRS 13 Fair Value Measurement:

IFRS 13 establishes a single framework for fair value measurement as required by other IFRS standards and is applicable to both financial and non-financial items that are required or permitted by other standards to be measured at fair value, effective January 1, 2013. Prospective application is required. Management has not yet evaluated the impact on the financial statements.

IAS 1 (Revised 2011) Presentation of Financial Statements:

Disclosure of other comprehensive income items between those that are recycled to profit or loss and those not recycled is required with retrospective application, effective July 1, 2012. Management has not yet evaluated the impact on the financial statements.

IFRS 10 Consolidated Financial Statements:

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

IFRS 11 Joint Arrangements:

The new standard classifies arrangements as either joint operations or joint ventures. All interests in joint ventures should now be accounted for based on the equity method. Transitional provisions vary depending on how an interest is classified under IAS 31, effective January 1, 2013. Management does not expect a material impact to the financial statements as a result of adopting this standard.

IFRS 12 Disclosure of Interest in Other Entities:

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

IAS 27 (as amended 2011) Separate Financial Statements:

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

IAS 28 (as amended 2011) Investments in Associates:

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

Controls and Procedures

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining internal controls over financial reporting ("ICFR"), as defined under rules adopted by the Canadian Securities Administrators. ICFR were designed under the supervision of, and with the participation of, the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). The Company's ICFR are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes in accordance with IFRS. Management, under the supervision of the CEO and CFO, evaluated the design of the Company's ICFR as of January 1, 2012 in accordance with the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and concluded that the Company's ICFR are effective.

During 2011 Q4, management tested and evaluated the effectiveness of the internal control procedures implemented to address the previous area of weakness relating to non-routine and complex tax and accounting issues related to the relatively complex structure of the Company and its subsidiaries and no issues were identified. There have been no other changes in the Company's ICFR during 2011 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 January 1, 2012 were effective.

Consolidated Financial Statements of

NEW FLYER INDUSTRIES INC.

January 1, 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 January 1, 2012, January 2, 2011 and January 4, 2010, and the consolidated statements of net earnings and comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years ended January 1, 2012 and January 2, 2011, 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 January 1, 2012, January 2, 2011 and January 4, 2010 and its financial performance and its cash flows for the years ended January 1, 2012 and January 2, 2011 in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP

Chartered Accountants

March 21, 2012
Winnipeg, Manitoba

NEW FLYER INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF NET EARNINGS AND COMPREHENSIVE INCOME (LOSS)

52 weeks ended January 1, 2012 (“Fiscal 2011”) and 52 weeks ended January 2, 2011 (“Fiscal 2010”)

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

		Fiscal 2011		Fiscal 2010 (Note 21)
Revenue (note 15)	$	926,423	$	983,758
Cost of sales (note 4, 20)		811,453		865,264
Gross profit		114,970		118,494
Sales, general and administration costs and other operating expenses (note 20)		41,525		46,986
Warranty expense assumed from ISE bankruptcy		—		8,684
Foreign exchange gain (note 14c)		(184)		(1,716)
Earnings from operations		73,629		64,540
Unrealized foreign exchange (gain) loss on non-current monetary items		(935)		16,893
Business acquisition related costs		—		132
Loss (gain) on disposition of property, plant and equipment		35		(23)
Loss on debt repurchase (note 10 a,b)		4,722		—
Fair value adjustment to embedded derivatives		1,153		(2,139)
Fair value adjustment to other liabilities, Class B Shares and Class C Shares		—		22
Earnings before finance costs and income taxes		68,654		49,655
Finance costs				
Interest on long-term debt		37,008		48,449
Accretion in carrying value of long-term debt		913		890
Other interest and bank charges		3,743		2,154
Fair market value adjustment on interest rate swap		302		419
		41,966		51,912
Distributions on Class B Shares and Class C Shares		—		1,626
		41,966		53,538
Earnings (loss) before income tax expense		26,688		(3,883)
Income tax expense (recovered) (note 7)				
Current income taxes		21,647		6,400
Deferred income taxes (recovered)		(14,156)		(12,684)
		7,491		(6,284)
Net earnings for the period	$	19,197	$	2,401
Other comprehensive loss for the period, net of tax				
Actuarial loss on defined pension plan (note 13)		(1,990)		(2,861)
Total comprehensive income (loss) for the period	$	17,207	$	(460)
Net earnings per share (basic and diluted) (note 11)	$	0.98	$	0.50

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

NEW FLYER INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at January 1, 2012, January 2, 2011 and January 4, 2010

(in thousands of U.S. dollars)

	January 1, 2012	January 2, 2011	January 4, 2010 (note 21)
Assets			
Current			
Cash	$ 10,133	$ 73,463	$ 30,696
Accounts receivable (note 3,14c)	115,850	59,204	103,520
Income taxes recoverable	—	1,505	—
Inventories (note 4)	93,491	82,882	139,357
Due from related party (note 16)	—	—	510
Derivative financial instruments (note 14b,c)	145	8	420
Prepaid expenses and deposits	5,077	5,196	5,679
	224,696	222,258	280,182
Property, plant and equipment (note 5,15)	37,397	37,086	37,215
Embedded derivative instruments (note 14b, 21f)	3,684	4,910	2,771
Unused investment tax credits (note 20)	23,766	—	—
Deferred tax assets (note 7)	36,558	24,968	5,284
Goodwill and intangible assets (note 6)	544,361	559,711	574,491
	$ 870,462	$ 848,933	$ 899,943
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 152,207	$ 95,008	$ 159,497
Income taxes payable	4,964	—	6,547
Deferred revenue	1,897	27,568	25,129
Provisions (note 19)	32,808	42,641	31,409
Current portion of long-term debt (note 10)	9,000	—	—
Current portion of performance unit plan liability (note 9)	1,404	4,142	—
Current portion of obligations under finance leases (note 8)	2,377	2,596	2,590
Other liabilities, Class B Shares and Class C Shares	—	—	21,018
	204,657	171,955	246,190
Accrued benefit liability (note 13)	9,136	8,922	6,630
Obligations under finance leases (note 8)	2,102	3,684	5,570
Performance unit plan liability (note 9)	262	3,823	4,547
Deferred tax liabilities (note 7)	119,088	125,997	121,254
Long-term debt (note 10)	166,835	404,929	376,333
Derivative financial instruments (note 14b, c)	2,811	2,510	2,091
	504,891	721,820	762,615
Commitments and contingencies (note 17)			
Shareholders' equity			
Share capital (note 11)	476,918	226,338	217,469
Deficit	(111,347)	(99,225)	(80,141)
	365,571	127,113	137,328
	$ 870,462	$ 848,933	$ 899,943

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

Approved and authorized for issue by the board of directors on March 21, 2012.

"Hon. Brian V. Tobin, Director"

"Wayne McLeod, Director"

NEW FLYER INDUSTRIES INC.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

January 1, 2012

(in thousands of U.S. dollars)

		Share Capital		Deficit		Total Shareholders' Equity (note 21)
Balance, January 4, 2010 (note 21)	$	**217,469**	$	**(80,141)**	$	**137,328**
Shares issued in exchange for Class B Shares and Class C Shares of NFL Holdings on June 24, 2010		9,348		—		9,348
Share issuance costs		(479)		—		(479)
Net earnings for the period		—		2,401		2,401
Other comprehensive loss for the period				(2,861)		(2,861)
Dividends declared on common shares		—		(18,624)		(18,624)
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		—		19,197		19,197
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		6,638		(3,248)		3,390
Balance, January 1, 2012	$	**476,918**	$	**(111,347)**	$	**365,571**

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

NEW FLYER INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

52 weeks ended January 1, 2012 and 52 weeks ended January 2, 2011

(in thousands of U.S. dollars)

	Fiscal 2011	Fiscal 2010
Cash generated from (used in)		
Operating activities		
Net earnings for the period	$ 19,197	$ 2,401
Adjustments for		
Income tax expense (recovered)	7,491	(6,284)
Depreciation of plant and equipment	8,262	8,193
Amortization of intangible assets	15,981	15,865
Loss (gain) on disposition of property, plant and equipment	35	(23)
Finance costs recognized in profit or loss	41,966	51,912
Unrealized foreign exchange loss (gain) on non-current monetary items	(935)	16,893
Foreign exchange gain on cash held in foreign currency	(2,074)	(2,003)
Fair value adjustment to embedded derivatives	1,153	(2,139)
Fair value adjustment to other liabilities, Class B Shares and Class C Shares	—	22
Warranty expense assumed from ISE bankruptcy	—	8,684
Loss on debt repurchase	4,722	—
Unrealized investment tax credits (note 20)	(20,530)	—
Defined benefit expense (note 13)	1,821	1,391
Defined benefit funding (note 13)	(4,870)	(4,224)
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	72,219	90,688
Changes in non-cash working capital items (note 12)	(62,136)	41,660
Cash generated from operations before interest and income taxes paid	10,083	132,348
Interest paid	(43,425)	(50,482)
Income taxes paid	(5,128)	(11,156)
Net cash (used) generated by operating activities	(38,470)	70,710
Financing activities		
Repayment of obligations under finance lease	(2,732)	(2,478)
Costs associated with share issuance	(4,600)	(479)
Proceeds from issue of long-term debt	30,000	11,565
Costs associated with refinancing or debt issuance	(1,288)	(588)
Repayment of subordinated notes	(15,439)	—
Repayment of other liabilities, Class B Shares and Class C Shares	—	(11,565)
Due to related party – New Flyer LLC	—	383
Dividends paid	(24,594)	(18,468)
Net cash used in financing activities	(18,653)	(21,630)
Investing activities		
Proceeds on disposition of property, plant and equipment	35	23
Acquisition of intangibles	(631)	(1,085)
Acquisition of property, plant and equipment	(7,685)	(7,254)
Net cash used in investing activities	(8,281)	(8,316)
Effect of foreign exchange rate on cash	2,074	2,003
(Decrease) increase in cash	(63,330)	42,767
Cash — beginning of period	73,463	30,696
Cash — end of period	$ 10,133	$ 73,463

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's principal place of business is Winnipeg, Manitoba, as well as two other manufacturing facilities located in St. Cloud, Minnesota and Crookston, Minnesota. 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 Income Deposit Security units ("IDS") of the Company and New Flyer Industries Canada ULC ("NFI ULC") are listed on the TSX under the symbol "NFI.UN". As a result of a consolidation of all of the issued and outstanding Shares on a 10 to 1 basis, effective September 30, 2011, each IDS consists of one Share and C$55.30 principal amount of 14% Subordinated Notes of NFI ULC ("Subordinated Notes").

These financial statements were approved by the Company's board of directors on March 21, 2012.

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 Statement of Compliance

The Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These are the Company's first annual consolidated financial statements prepared in accordance with IFRS issued by the International Accounting Standards Board and Interpretations of the IFRS Interpretations Committee ("IFRIC"). Previously, the Company prepared its annual consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP").

The Company adopted IFRS in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards. The first date at which IFRS was applied was January 4, 2010. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 21.

2.2 Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 2.18.

These Statements were prepared on a going concern basis in accordance with 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 consolidated financial statements are disclosed in Note 2.22.

2.3 Principles of consolidation

The financial statements of the Company include the accounts of all of its subsidiaries. The consolidated financial 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"), 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Intercompany transactions between subsidiaries are eliminated on consolidation.

2.4 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.

2.5 Foreign currency

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

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

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

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

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

2.6 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, that the significant risks and rewards of ownership have been transferred to the

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

2.7 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 net earnings and comprehensive income (loss). 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.

2.8 Share-based compensation plans

The Company operates cash-settled share-based compensation plans under which it receives services from employees as consideration for cash payments.

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. 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 net earnings and comprehensive income (loss).

2.9 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Accounts receivables

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

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

2.11 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.

2.12 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.

2.13 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	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 2.15.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 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 subsidiary 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.

2.15 Impairment of non-financial assets

Non-financial assets with finite lives are tested at the end of every reporting period for possible impairment whether there are or are not 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.

2.16 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.

2.17 Long-term debt

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

2.18 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 net earnings and comprehensive income (loss). 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, “due from related party” 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 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 (gain) loss on non-current monetary items” in the consolidated statements of net earnings and comprehensive income (loss) 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 also has an embedded derivative associated with the Company's right to prepay the Subordinated Notes (discussed in note 10(a,b). Changes in fair values are recognized within the consolidated statements of net earnings and comprehensive income (loss).

2.19 Taxation

Tax expense comprises current and deferred tax. Tax is recognized in the consolidated statements of net earnings and comprehensive income (loss) 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.

2.20 Investment tax credits

The Company is entitled to investment tax credits based on the number of qualified alternative fuel motor vehicles delivered, and also on a percentage of eligible current and capital research and development expenditures incurred in each taxation year. Investment tax credits are recognized when there is reasonable assurance that the Company will comply with the associated conditions and the grants will be received. The investment tax credits are recognized either as a reduction in cost of sales on the consolidated statements of net earnings and comprehensive income (loss), 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)

2.21 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.

2.22 Critical accounting estimates and judgments

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

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. Estimates are reviewed on a regular basis and, as adjustments become necessary, they are reported in the consolidated statements of net earnings and comprehensive income (loss) 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, embedded derivatives, property, plant and equipment, intangible assets, goodwill impairment assessment, provision for warranty costs, accrued benefit liability, accrued bonus liability, performance unit plan liability and deferred income taxes.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year 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 third quarter of each year.

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 management covering a four year period. Cash flows beyond this period are extrapolated using a steady estimated growth rate based on the long-term average growth rate for each industry in which the CGUs operate. The Company has used as key assumptions discount rates between 10.5% and 12.0% based on earnings multiples of like businesses and a long-term growth rate of 3.0%. Impairment could occur if the long-term growth rate and annual growth rates assumptions decreased by at least 2.75 percentage points or if the discount rate increased by at least 2.00 percentage points.

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.

Based upon historical operating results, management's forecasts and business plans, the 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2.5% 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.

The recoverable amount of each CGU was greater than its carrying value. No impairment losses in respect of goodwill or intangible assets were recognized in Fiscal 2011 or Fiscal 2010.

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 2.7 for certain assumptions made with respect to employee benefits.

Income Taxes

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

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

The operations and organizational structure of the Company are complex, and related tax interpretations, regulations and legislation are continually changing. As a result, there are usually some tax matters in question that result in uncertain tax positions. The Company approaches uncertain tax positions from a liability or exposure perspective. The Company provides for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management's assessment of exposures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Valuation of long-term debt and embedded derivative

Management estimates the fair value of the long-term debt and the related embedded derivative asset using an implied credit spread based on observable quoted prices for similar liabilities in active markets and inputs that are derived from or corroborated by observable market data.

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 2.6, 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.

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 on Transfer of Financial Assets and Offsetting:

This amendment requires that the Company provide the disclosures for all transferred financial assets that are not derecognized and for a continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred effective for annual periods beginning on or after July 1, 2011. Management does not expect a material impact to the financial statements as a result of adopting this standard.

The disclosure requirements have also been amended with respect to offsetting financial assets and financial liabilities to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. Retrospective application is required, for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. Management has not yet evaluated the impact on the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

IFRS 9 Financial Instruments:

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

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

IAS 19 (Revised 2011) Employee Benefits:

The main change to the standard are the elimination of the corridor approach (with all changes to the defined benefit obligation and plan assets recognized when they occur) and calculation of net interest using a high quality corporate bond yield. Retrospective application is required with certain exceptions, effective January 1, 2013. Management has not yet evaluated the impact on the financial statements.

IFRS 13 Fair Value Measurement:

IFRS 13 establishes a single framework for fair value measurement as required by other IFRS standards and is applicable to both financial and non-financial items that are required or permitted by other standards to be measured at fair value, effective January 1, 2013. Prospective application is required. Management has not yet evaluated the impact on the financial statements.

IAS 1 (Revised 2011) Presentation of Financial Statements:

Disclosure of other comprehensive income items between those that are recycled to profit or loss and those not recycled is required with retrospective application, effective July 1, 2012. Management has not yet evaluated the impact on the financial statements.

IFRS 10 Consolidated Financial Statements:

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

IFRS 11 Joint Arrangements:

The new standard classifies arrangements as either joint operations or joint ventures. All interests in joint ventures should now be accounted for based on the equity method. Transitional provisions vary depending on how an interest is classified under IAS 31, effective January 1, 2013. Management does not expect a material impact to the financial statements as a result of adopting this standard.

IFRS 12 Disclosure of Interest in Other Entities:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IAS 27 (as amended 2011) Separate Financial Statements:

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

IAS 28 (as amended 2011) Investments in Associates:

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

3. ACCOUNTS RECEIVABLE

	January 1, 2012	January 2, 2011	January 4, 2010
Trade	$ 111,047	$ 52,487	$ 96,375
Other	4,803	6,717	7,145
	$ 115,850	$ 59,204	$ 103,520

4. INVENTORIES

	January 1, 2012	January 2, 2011	January 4, 2010
Raw materials	$ 45,454	$ 38,600	$ 57,893
Work in process	46,340	42,580	72,729
Finished goods	1,697	1,702	8,735
	$ 93,491	$ 82,882	$ 139,357

The cost of inventories recognized as expense and included in cost of sales amounted to $751,120 (2010: $798,697). During Fiscal 2011, the Company had a write-down of inventory to net realizable value recorded in cost of sales of $1,828, (2010: $1,128). There were no reversals of a write-down in inventory in either of the related periods. The carrying value of inventories is pledged as security against the Company’s credit facility.

(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	$ 13,852	$ 29,422	$ 11,700	$ 507	$ 1,364	$ 56,845
Accumulated depreciation	1,026	11,901	5,916	158	629	19,630
January 4, 2010 net book value	12,826	17,521	5,784	349	735	37,215
Additions (owned and leased)	917	3,073	1,614	431	1,219	7,254
Additions resulting from business combination (note 6)	—	473	—	15	—	488
Depreciation charge	(450)	(4,297)	(2,132)	(142)	(850)	(7,871)
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

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

	Land, building and building improvements	Machinery and equipment	Computer hardware and software	Office equipment	Demonstrator buses	Total
Recorded as:						
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
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

The Company leases various machinery and computer hardware and software licenses under non-cancellable finance lease agreements (note 8). During Fiscal 2011 the Company had $1,005 (2010: $496) 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	$ 7,620	$ 3,861	$ 11,481
Accumulated depreciation	2,445	1,554	3,999
January 4, 2010 net book value	5,175	2,307	7,482
Cost	7,766	4,211	11,977
Accumulated depreciation	3,859	2,650	6,509
January 2, 2011 net book value	3,907	1,561	5,468
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

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

6. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Trade names	Patents	Customer relationships	Total
Cost	$ 201,083	$ 154,200	$ 99,700	$ 158,700	$ 613,683
Accumulated amortization	—	—	(20,524)	(18,668)	(39,192)
January 4, 2010 net book value	201,083	154,200	79,176	140,032	574,491
Additions	1,085	—	—	—	1,085
Amortization charge	—	—	(8,308)	(7,557)	(15,865)
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
Recorded as:					
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
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

On April 30, 2010, THI acquired certain assets and liabilities of TCB Industries, LLC of Elkhart, Indiana. The acquisition price was $1,150 of cash with future contingent consideration. The purchased business is being operated by THI's new wholly-owned subsidiary, TCB. Goodwill was recorded in the amount of $1,085 which represents the excess of the purchase price over the fair value assigned to identifiable assets and liabilities acquired.

On January 31, 2011, the Company acquired $631 of intellectual property pursuant to a license agreement with Bluways USA, Inc.

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

7. DEFERRED TAXES AND INCOME TAX EXPENSE

	January 1, 2012	January 2, 2011	January 4, 2010
Deferred tax assets:			
Deferred tax asset to be recovered after more than 12 months	$ 33,416	$ 33,078	$ 21,360
Deferred tax asset to be recovered within 12 months	13,368	8,467	5,802
	46,784	41,545	27,162
Deferred tax liabilities:			
Deferred tax liability to be reversed after more than 12 months	(123,079)	(137,383)	(136,690)
Deferred tax liability to be reversed within 12 months	(6,235)	(5,191)	(6,442)
	(129,314)	(142,574)	(143,132)
Deferred taxes (net)	(82,530)	(101,029)	(115,970)

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:

	January 1, 2012	January 2, 2011	January 4, 2010
As presented on statements of financial position:			
Deferred tax assets	$ 36,558	$ 24,968	$ 5,284
Deferred tax liabilities	(119,088)	(125,997)	(121,254)
Deferred taxes (net)	(82,530)	(101,029)	(115,970)

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

	52-Weeks Ended January 1, 2012	52-Weeks Ended January 2, 2011
Beginning of period	$ (101,029)	$ (115,970)
Exchange differences	(237)	533
Tax recovered through net earnings	14,157	12,684
Tax recovered through other comprehensive loss	1,189	1,724
Tax recovered through equity	3,390	—
End of period	$ (82,530)	$ (101,029)

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 4, 2010	$ —	$ (5,162)	$ (136,294)	$ (1,676)	$ (143,132)
Tax reversed (charged) through net earnings	(1,276)	(1,318)	1,858	1,294	558
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)

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

7. DEFERRED TAXES AND INCOME TAX EXPENSE (Continued)

Deferred tax assets	Provisions	Pension	Deferred Financing costs	Other	**Total**
January 4, 2010	$ 14,460	$ 2,420	$ 2,807	$ 7,475	$ 27,162
Tax recovered (charged) through net earnings	4,214	(841)	3,126	5,627	12,126
Tax recovered through other comprehensive loss	—	1,724	—	—	1,724
Exchange differences	309	52	60	112	533
January 2, 2011	18,983	3,355	5,993	13,214	41,545
Tax recovered (charged) through net earnings	(3,632)	(1,124)	410	5,243	897
Tax recovered through other comprehensive loss	—	1,189	—	—	1,189
Tax recovered through equity	—	—	1,777	1,613	3,390
Exchange differences	(131)	15	(42)	(79)	(237)
January 1, 2012	$ 15,220	$ 3,435	$ 8,138	$ 19,991	$ 46,784

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 $6,831 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:

2012 to 2019 (includes U.S. federal tax losses that are restricted in application to $55 per year)	$ 441
2030	2,775
2031	3,615
	$ 6,831

(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 2011	Fiscal 2010
Earnings (loss) before income tax expense	$ 26,688	$ (3,883)
Tax calculated using a 35% U.S. tax rate	9,341	(1,359)
Tax effect of:		
Tax recorded through equity	(3,390)	—
Withholding and other taxes	1,764	1,037
Non-deductible expenses (non-taxable income)	2,013	(455)
Revision of tax estimates	(6)	(633)
Foreign exchange impact	(1,008)	5,906
State taxes	117	—
Rate differential on income taxed at other than U.S. statutory rate	(765)	—
Distributions on Class B Shares and Class C Shares treated as interest expense	—	504
Impact of other liabilities, Class B Shares and Class C Shares fair value adjustment	—	7
Reversal of current income tax reserves	—	(2,633)
Recognition of previously unrecorded deferred income tax assets	—	(9,080)
Other	(575)	422
Income tax expense (recovered) for the period	$ 7,491	$ (6,284)

	Fiscal 2011	Fiscal 2010
Current income taxes for the period	$ 21,647	$ 6,400
Deferred income taxes recovered for the period	(14,156)	(12,684)
Income tax expense (recovered) for the period	$ 7,491	$ (6,284)

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 6.34% based on individual lease rates ranging between 3.17% and 13.41%, expiring between 2012 and 2016. The following is a schedule of future minimum lease payments, together with the balance of the obligation under the finance leases as at January 1, 2012:

2012	$ 2,583
2013	1,488
2014	666
2015	47
2016	12
	4,796
Less: Amounts representing interest	317
	4,479
Less: Current portion	2,377
	$ 2,102

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

9. PERFORMANCE UNIT PLAN LIABILITY

The purposes of the Performance Unit Plan ("PUP") and the New Performance Unit Plan ("New PUP") are to attract, motivate, retain 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 PUP and the New PUP is that it will further align the interests of management and shareholders given that the award grant and redemption values will be determined based on the market price of the Shares. Under the terms of the PUP and the New PUP, the human resources, compensation and corporate governance committee may grant eligible participants each year Performance Units ("PUs") which give the holders thereof the right to receive, upon vesting and redemption of a PU, a cash payment equal to the fair market value of a Share, determined based on the average trading price of the Shares for the 5 trading days preceding the redemption date. When dividends are paid on the Shares, additional PUs equivalent to the amount of the dividends multiplied by the number of PUs held (and determined based on the average trading price of the Shares for the 5 trading days preceding payment date) will be credited to the participant's PU account. PUs generally vest at the end of the third fiscal year following the date of grant, subject to and based on the Company achieving certain specified performance targets.

Following the time of vesting, participants will be entitled to receive cash redemption payments equal to the fair market value of Share for every vested PU held. PUs will also immediately vest upon the closing of a transaction resulting in certain change of control events.

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. On January 2, 2011 there were 1,314,957 PUs outstanding (January 3, 2010: 774,197 PUs). During the 52-week period ended January 1, 2012 additional 240,302 PUs were granted to the Company's executives, 10,588 PUs were forfeited, a net of 116,470 PUs were credited to the participants for distributions paid and 302,562 fully vested PUs were redeemed for cash. At January 1, 2012, there were 252,590 PUs that fully vested.

For the 52-week period ended January 1, 2012, a recovery of compensation expense of $2,005 (2010: $2,993 expense) was recorded in the consolidated statements of net earnings and comprehensive income (loss) in relation to this PUP. At January 1, 2012 there was a current liability of $1,404 and a non-current liability of $262 (2010: current liability of $4,142 and a non-current liability of $3,823).

10. LONG-TERM DEBT

	Final Maturity	Face Value	Unamortized Transaction Costs	**Net Book Value January 1, 2012**	Net Book Value January 2, 2011	Net Book Value January 4, 2010
Subordinated Notes included in the IDS issue (a)	2020	$ 30,790	$ 243	$ 30,547	$ 272,799	$ 247,331
Separate Subordinated Notes (b)	2020	27,048	100	26,948	43,275	40,946
Term Credit Facility (c)	2014	111,000	1,660	109,340	88,855	88,056
Revolving Credit Facility ("Revolver") (c)	2014	9,000	—	9,000	—	—
		177,838	2,003	175,835	404,929	376,333
Less: current portion of long-term debt (c)		9,000	—	9,000	—	—
		$ 168,838	$ 2,003	$ 166,835	$ 404,929	$ 376,333

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

(a) C$31,313 (January 2, 2011: C$273,599, January 4, 2010: C$261,697) is the aggregate principal amount of 14% unsecured Subordinated Notes denominated in Canadian dollars held by third parties that mature August 2020.

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

10. LONG-TERM DEBT (Continued)

On August 19, 2011, the Company completed a non-cash rights offering (the "Offering") which resulted in the repurchase of C$242,286 aggregate principal amount of Subordinated Notes held by the public. Pursuant to the Offering, NFI shareholders of

record on July 20, 2011 received one right ("Right") for each share held, entitling holders to subscribe for and purchase nine (9) additional Shares, such that a holder exercising a Right, following the completion of the Offering, would hold ten (10) Shares. Each Right was exercisable only on delivery of the Subordinated Note forming part of the IDS. No cash payment was required to exercise the Rights which expired on August 18, 2011 at 5:00 p.m. Eastern Time. A loss of $3,565 was recorded as a result of this debt for equity exchange transaction, $1,598 of which is due to recording shares issued at the estimated fair value of the long-term debt and related embedded derivative and $1,967 was expensed as it related to unamortized transaction costs on Subordinated Notes now owned by NFI.

The Subordinated Notes are subordinated in right of payment to all existing and future senior indebtedness of NFI ULC and are senior in right of payment to any subordinated indebtedness of NFI ULC. The Subordinated Notes are an unsecured obligation of NFI ULC and are guaranteed by NFAI on an unsecured basis. Except for a tax redemption, NFI ULC may not redeem the Subordinated Notes prior to August 19, 2012. On or after August 19, 2012, NFI ULC may redeem the Subordinated Notes at its option, at any time in whole and from time to time in part, upon not less than 30 nor more than 60 days' notice to holders, for cash, at a redemption price (expressed as a percentage of principal amount) set forth below, plus accrued and unpaid interest on the Subordinated Notes redeemed to the applicable redemption date, if redeemed during the 52-week period beginning on August 19 during the years indicated below:

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

(b) NFI ULC has C$27,508 (January 2, 2011: C$43,210, January 4, 2010: C$43,210) of separate 14% Subordinated Notes outstanding that were issued under the same terms and conditions as the Subordinated Notes included in the issuance of IDSs ("Separate Subordinated Notes"). The holders of the Separate Subordinated Notes and the Subordinated Notes issued as part of the IDSs vote together as a single class in proportion to the aggregate principal amount of Subordinated Notes they hold on all matters on which they are eligible to vote under the indenture.

During November 2011, NFI ULC purchased from certain institutional investors, an aggregate of C$15,702 principal amount of the Separate Subordinated Notes for a purchase price of approximately 107% of the principal amount, which were cancelled after the purchase. NFI ULC financed the purchases and related costs by borrowing $17,000 from the accordion term loan (see below). A loss of $1,157 was recorded as a result of the debt purchase.

(c) On July 27, 2011, the Company entered into a second amended and restated credit agreement (the "Credit Facility") with The Bank of Nova Scotia and Bank of Montreal, as co-lead arrangers and joint book runners, and a syndicate of leading Canadian and American financial institutions in the amount of $195.0 million and a $75.0 million accordion term loan feature. The Credit Facility refinances New Flyer's former senior credit facility which was scheduled to mature in April 2012. The Credit Facility matures on April 24, 2014 and consists of a $105.0 million term loan (including a $15.0 million delayed draw loan) of which $4.0 million was drawn at January 1, 2012) and an additional $75.0 million accordion term loan feature of which $17.0 million was drawn at January 1, 2012 (the "Term Credit Facility") and a $90.0 million Revolver (including a $55.0 million letter of credit sub-facility). The terms of the Credit Facility were not deemed to be significantly different from the former senior credit facility and recorded as a modification of the existing debt with the related transaction costs to be amortized using the effective interest method. 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.

10. LONG-TERM DEBT (Continued)

	Committed	**Outstanding**
Term loan	$ 90,000	$ 90,000
Delayed draw loan for asset acquisitions (availability to draw expires July 26, 2012)	15,000	4,000
Total term loan	105,000	94,000
Accordion term loan feature to fund strategic growth and revenue diversification initiatives, (maximum of $75,000 term loan increase may be requested)	17,000	17,000
Term Credit Facility - January 1, 2012	122,000	**111,000**
Revolver (includes $55,000 letter of credit sub-facility)	90,000	9,000
Credit Facility	$ 212,000	$ 120,000

There were $9,000 of drawings on the Revolver at January 1, 2012 and $13,774 of outstanding letters of credits (January 2, 2011: $15,456). As at January 1, 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 17).

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.

11. SHARE CAPITAL

Authorized	
Unlimited	Common Shares

Issued		**January 1, 2012**	January 2, 2011	January 4, 2010
44,379,070	(January 2, 2011: 4,947,528,January 4, 2010: 4,732,310)	$ 476,918	$ 226,338	$ 217,469

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 4, 2010 (previously reported)	47,323	$ 217,469
Retrospective application of share consolidation of ten shares for one on September 30, 2011	(42,591)	—
Balance - January 4, 2010 (restated)	4,732	217,469
Common shares issued in exchange for Class B Shares and Class C Shares on June 24, 2010	216	9,348
Less: share issuance costs	—	(479)
Balance - January 2, 2011(restated)	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	44,379	$ 476,918

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

11. SHARE CAPITAL (Continued)

On August 18, 2011, shareholders of NFI exercised approximately 89% of the Rights issued pursuant to the Offering, resulting in 443,790,704 Shares being issued and outstanding. See note 10a for a description of the material terms of the Offering.

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 has reduced the number of Shares outstanding from 443,790,704 to 44,379,070 (including the Shares forming part of the IDSs that still remain outstanding as a result of holders not exercising the rights issued pursuant to the Offering).

To reflect the 10:1 share consolidation under IAS 33 *Earnings Per Share*, a retrospective application is required in calculating the basic and diluted earnings per share using the weighted average number of shares outstanding for Fiscal 2011 and Fiscal 2010 of 19,680,192 and 4,846,423 respectively.

The dividends declared in Fiscal 2011 and Fiscal 2010 were $26,081 ($1.33 per Share) and $18,624 ($3.84 per Share) respectively. Dividends of $9,542 (0.215 per Share) were proposed or declared after January 1, 2012 but prior to the Statements being authorized for issue. These Statements do not reflect this dividend payable.

12. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	**Fiscal 2011**	Fiscal 2010
Accounts receivable	$ (56,646)	$ 55,498
Income taxes recoverable	1,505	(1,505)
Inventories	(10,609)	56,475
Prepaid expenses and deposits	119	483
Accounts payable and accrued liabilities	34,035	(67,731)
Income taxes payable	4,964	(6,547)
Deferred revenue	(25,671)	2,439
Provisions	(9,833)	2,548
	$ (62,136)	$ 41,660

13. 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, 2010. The next compulsory actuarial valuation as of December 31, 2011 will be completed in May 2012.

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

13. EMPLOYEE BENEFITS (Continued)

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

	January 1, 2012	January 2, 2011	January 4, 2010
Change in plan assets			
Plan assets at fair value — beginning of period	$ 29,679	$ 22,228	$ 14,897
Expected return on plan assets	2,212	1,709	449
Actuarial (losses) gains	(691)	790	1,374
Employer's contributions	4,870	4,224	3,598
Benefits paid	(1,283)	(746)	(741)
Foreign exchange	(795)	1,474	2,651
Plan assets at fair value — end of period	33,992	29,679	22,228
Change in defined benefit obligation			
Accrued benefit obligation — beginning of period	38,601	28,858	17,146
Current service cost	1,950	1,422	1,026
Interest cost	2,195	1,935	1,595
Benefits paid	(1,283)	(746)	(741)
Foreign exchange	(1,002)	1,917	3,314
Plan amendments	—	—	3,203
Actuarial loss	2,667	5,215	3,315
Defined benefit obligation — end of period	43,128	$ 38,601	$ 28,858
Accrued benefit liability - present value of unfunded obligations	(9,136)	$ (8,922)	$ (6,630)

The history of experience adjustments is as follows.

	Fiscal 2011	Fiscal 2010
Experience adjustments on plan assets	$ (691)	$ 790
Experience adjustments on plan liabilities	629	(1,018)

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

	Fiscal 2011	Fiscal 2010
Accrued benefit obligation		
Discount rate	5.25%	5.75%
Pension plan expense		
Discount rate	5.75%	6.50%
Expected long-term rate of return on plan assets	7.00%	7.00%

If the discount rate decreased by 1% from the 5.25% discount rate used at January 1, 2012, the defined benefit obligation would increase by approximately 16%. Similarly, if the discount rate increased 1% then the obligation would decrease approximately 16%.

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 2011 was $1,521 (Fiscal 2010 $2,499).

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

13. EMPLOYEE BENEFITS (Continued)

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 31, 2012 are $5,380.

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

	Fiscal 2011	Fiscal 2010
Current service costs	$ 1,950	$ 1,422
Interest cost on accrued benefit obligations	2,195	1,935
Expected return on plan assets	(2,212)	(1,709)
Foreign exchange	(112)	(257)
Pension expense for the period	$ 1,821	$ 1,391

Net actuarial losses on defined benefit pension of $1,990 (net of income tax recovery of $1,189) and $2,861 (net of income tax recovery of $1,724) were recorded in other comprehensive loss during Fiscal 2011 and Fiscal 2010, respectively. Cumulatively, $4,851 (net of income tax recovery of $2,913) has been recorded in other comprehensive loss.

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

	January 1, 2012	January 2, 2011
Asset category		
Canadian equities	20.5%	20.0%
Foreign equities	30.0%	29.7%
Bonds	49.5%	50.3%
	100.0%	100.0%

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 2011	Fiscal 2010
Defined contribution pension expense	$ 1,916	$ 1,787

Cash payments contributed by the Company during Fiscal 2011 for its defined benefit and defined contribution pension plans amounted to $6,786 (2010: $6,011).

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Financial Instruments

The Company has made the following classifications:

Cash	Loans and receivables
Accounts receivable	Loans and receivables
Due from related party	Loans and receivables
Deposits	Loans and receivables
Accounts payables and accrued liabilities	Other Liabilities
Other liabilities, Class B Shares and Class C Shares	Other Liabilities
Long-term debt	Other Liabilities
Derivative financial instruments and embedded derivatives	Fair value through profit or loss

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(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.

Embedded Derivative - The fair value of the embedded derivative instrument is determined using public market data inputs which are 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, are derived from or corroborated by observable market data and therefore the embedded derivative instrument has been classified as Level 2.

Financial instruments whose carrying value approximates fair value – The carrying value of accounts receivable, due from related party, 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. Other liabilities, the former Class B common shares ("Class B Shares") and Class C common shares ("Class C Shares") of the Company's subsidiary, NFL Holdings are recorded at amortized cost, which approximates the fair value based on the redemption value, and was calculated in accordance with the provisions of the securityholders agreement governing NFL Holdings. The securityholders agreement governing NFL Holdings has now been terminated.

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

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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:

	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

	January 2, 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial instrument asset				
Foreign exchange forward contracts	$ —	$ 8	$ —	$ 8
Embedded derivative instrument	—	4,910	—	4,910
	$ —	$ 4,918	$ —	$ 4,918
Liabilities				
Derivative financial instrument liabilities				
Interest rate swap	$ —	$ 2,510	$ —	$ 2,510

	January 4, 2010			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial instrument asset				
Foreign exchange forward contracts	$ —	$ 420	$ —	$ 420
Embedded derivative instrument	—	2,771	—	2,771
	$ —	$ 3,191	$ —	$ 3,191
Liabilities				
Derivative financial instrument liabilities				
Interest rate swap	$ —	$ 2,091	$ —	$ 2,091

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

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Long-term debt – All long-term debt of the Company, other than the debt financed with the Credit Facility, bears interest at fixed rates. The fair values for disclosure purposes have been estimated based on future projected cash flows and the risk-free rate on an instrument with similar terms, adjusted for appropriate risk premium for the Company's credit profile. 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 January 1, 2012	Fair Value January 1, 2012	Net Book Value January 2, 2011	Fair Value January 2, 2011	Net Book Value January 4, 2010	Fair Value January 4, 2010
Subordinated Notes included in the IDS issue	$ 30,547	$ 32,098	$ 272,799	$ 279,111	$ 247,331	$ 248,486
Separate Subordinated Notes	26,948	28,198	43,275	44,080	40,946	41,029

(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 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 $111,000 drawn term loan. The interest rate swap fixes the interest rate at 1.90% plus the applicable interest margin until April 2014 (maturity date). The fair value of the interest rate swap liability at January 1, 2012 is $2,811 (January 2, 2011: $2,510) 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 comprehensive income (loss) for the Fiscal 2011 would have been higher by $1,319 (2010: $637), arising mainly as a result of the related fair value adjustment recorded as lower interest expense. If interest rates had been 100 basis points higher, with all other variables held constant, net earnings and comprehensive income (loss) for Fiscal 2011 would have been lower by $1,285 (2010: $626), arising mainly as a result of the related fair value adjustment recorded as higher interest expense.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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 2011, 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.

During Fiscal 2011, the Company recorded realized foreign exchange gains of $184 (2010: $1,716). This was comprised of $1,535 loss on settlement of foreign exchange contracts and a $1,719 foreign currency gain on translation of Canadian dollar denominated operations and distributions.

At January 1, 2012, the Company had $17.0 million foreign exchange forward contracts to buy Canadian dollars that range in expiry dates from January to April 2012, the related asset of $145 (2010: $8) 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 statement of net earnings and comprehensive income (loss).

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 relating to long-term debt. As an illustration, at January 1, 2012, if the Canadian dollar had weakened 10 percent against the U.S. dollar, with all other variables held constant, net earnings for Fiscal 2011 would have been higher by $3,787 (2010: $16,223), respectively. 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 $3,097 for Fiscal 2011 (2010: $19,828). The impact of these potential fluctuations produces unrealized foreign exchange gains and losses almost entirely related to the Canadian denominated long-term debt that matures in 2020.

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, 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 January 1, 2012:

US dollars in thousands	Total	2012	2013	2014	2015	2016	Post 2016
Term Credit Facility	$ 121,500	$ 4,500	$ 4,500	$ 112,500	$ —	$ —	$ —
Subordinated Notes included in IDS issue	68,150	4,310	4,310	4,310	4,310	4,310	46,600
Separate Subordinated Notes	59,900	3,790	3,790	3,790	3,790	3,790	40,950
Finance leases	4,796	2,583	1,488	666	47	12	—
Operating leases	26,385	3,050	2,237	2,027	1,784	1,821	15,466
	$ 280,731	$ 18,233	$ 16,325	$ 123,293	$ 9,931	$ 9,933	$ 103,016

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 January 1, 2012, the Company had a cash balance of $10,133 (January 2, 2011 $73,463) and had a $90,000 secured revolving credit facility. As at January 1, 2012, there was $9,000 of direct borrowings (January 2, 2011 $Nil) and $13,774 of outstanding letters of credits (January 2, 2011: $15,456) under this secured revolving credit facility.

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

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Management expects that the Company's principal sources of funds will be cash generated from its operating activities 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 derivatives. Management has assessed that the credit risk associated with accounts receivable is mitigated by the significant proportion for which the counterparties are well-established transit authorities. Additionally, the U.S. federal government funds a substantial portion of U.S. customer payments, as 80% of the capital cost of new buses typically come from the U.S. Federal Transportation Administration, while the remaining 20% comes from state and municipal sources. The maximum exposure to the risk of credit for accounts receivable corresponds to their book value. Historically, the Company has experienced nominal bad debts as a result of the customer base being principally comprised of municipal and other local transit authorities.

During Fiscal 2011, the Company recorded a bad debt expense of $28 as compared to $88 bad debt expense in Fiscal 2010.

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 statement of net earnings and comprehensive income (loss) within "sales, general and administrative costs and other operating expenses". When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against "sales, general and administration costs and other operating expenses" in the consolidated statements of net earnings and comprehensive income (loss).

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

	January 1, 2012	January 2, 2011	January 4, 2010
Current, including holdbacks	$ 110,563	$ 49,812	$ 78,383
Past due amounts but not impaired			
1 – 60 days	2,671	4,494	21,800
Greater than 60 days	2,665	4,919	3,429
Less: Allowance for doubtful accounts	(49)	(21)	(92)
Total accounts receivables, net	$ 115,850	$ 59,204	$ 103,520

As at January 1, 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.

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

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(d) Capital management

The Company's objectives in managing capital are to deploy capital to provide an appropriate return to shareholders and holders of IDSs 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 and IDSs. The capital structure of the Company consists of cash, long-term debt and shareholders' equity. The Company manages capital to ensure an appropriate balance between debt and equity.

The August 19, 2011 Offering and the November 2011 purchase of Separate Subordinated Notes represents another step in the process of Company's conversion from the previous IDS structure to a traditional common share structure to, among other things, provide the Company with greater financial flexibility to pursue strategic opportunities. As previously announced, management intends to complete the conversion to a common share structure no later than August 2012 when the Company has the right to call the remaining C$58.8 million of Subordinated Notes held by third parties, which includes the Subordinated Notes forming part of the IDSs.

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.

As a result of borrowing agreements entered into by the Company, there are certain financial covenants that must be maintained. Financial covenants include a fixed charge coverage ratio, senior leverage ratio and total leverage ratio. As at January 1, 2012, the Company is in compliance with the financial covenants in the Credit Facility. The results of the financial covenants tests as of such date are as follows:

	January 1, 2012	January 2, 2011	January 4, 2010
Senior Leverage Ratio (must be less than 2.50) (1)	1.43	0.27	0.67
Total Leverage Ratio (must be less than 4.75) (2)	2.15	3.82	3.51
Fixed Charge Coverage Ratio (must be greater than 1.10)	1.26	1.47	1.77

(1) Increased from 2.25 effective August 19, 2011 under the Credit Facility.

(2) Decreased from 5.25 effective August 19, 2011 under the Credit Facility.

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

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

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

15. SEGMENT INFORMATION

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

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

There is no inter-segment revenue. Unallocated items in the consolidated earnings before income taxes primarily include foreign exchange gains or losses, losses or gains on disposition of property, plant and equipment, depreciation of property, plant and equipment, amortization of intangible assets, interest expense and income, fair value adjustment to embedded derivatives, accretion in carrying value of long-term debt, gains and losses on the Company's interest rate swap, loss on debt repurchase and distributions on the Class B Shares and the Class C Shares. 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 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

	Fiscal 2010			
	Bus Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 878,082	$ 105,676	$ —	$ 983,758
Operating costs and expenses	815,390	81,618	—	897,008
Earnings (loss) before income tax expense	62,692	24,058	(90,633)	(3,883)
Total assets	301,715	86,326	460,892	848,933
Addition of capital expenditures	6,758	496	—	7,254
Addition of goodwill and intangibles assets	1,085	—	—	1,085
Goodwill	148,483	53,685	—	202,168

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

15. SEGMENT INFORMATION (Continued)

The allocation of revenue to geographic areas is as follows:

	Fiscal 2011	Fiscal 2010
United States	$ 715,274	$ 676,230
Canada	211,149	307,528
Total	$ 926,423	$ 983,758

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

	January 1, 2012	January 2, 2011
United States	$ 10,005	$ 9,178
Canada	27,392	27,908
Total	$ 37,397	$ 37,086

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 2011	Fiscal 2010
Customer A	$ 101,656	$ 100,345
Customer B	—	136,553

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

16. RELATED PARTY TRANSACTIONS

The Company has the following related party balances:

	January 1, 2012	January 2, 2011	January 4, 2010
Due from New Flyer LLC (previously controlled by management and now dissolved), interest rate of 15.5%, payable on demand	$ —	$ —	$ 510
	$ —	$ —	$ 510

Loans were made in lieu of dividends to New Flyer LLC on its Class B Shares and Class C Shares. The related party transactions were measured at the exchange amount, which is the amount of consideration established and agreed to by the related party. All related party loans with New Flyer LLC were repaid in full on June 24, 2010 and subsequently, New Flyer LLC was dissolved.

Included in accounts payable and accrued liabilities were $603 (2010: $547) relating to directors fees and defined benefit pension plan contributions paid subsequent to January 1, 2012.

Compensation of key management

Key management includes the roles of board of directors, President and CEO, the CFO, executive vice presidents and vice presidents. The compensation paid or payable to key management for employee services is shown below:

	Fiscal 2011	Fiscal 2010
Salaries and short term employee benefits	$ 6,285	$ 7,087
Post-employment benefits	253	209
Share-based payment benefits	(2,005)	2,993
	$ 4,533	$ 10,289

Share-based payments benefits shown above are based on PUP 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 PUP expense recovery (shown above) is $1,404 of PUs that did vest at January 1, 2012 and are payable.

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

17. COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitments

The Company has leased real property with aggregate minimum lease payments of $26,385 (2010: $28,531) payable as follows:

2012	$	3,050
2013		2,237
2014		2,027
2015		1,784
2016		1,821
Thereafter		15,466
	$	26,385

(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 January 1, 2012 range from January 2012 to March 2013.

At January 1, 2012, outstanding surety bonds guaranteed by the Company totaled $32,042 (2010: $28,582). 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 January 1, 2012, letters of credit totaling $13,774 remain outstanding under the letter of credit facility as security for the following contractual obligations of the Company:

	January 1, 2012	January 2, 2011	January 4, 2010
Collateral to secure operating facility leases	$ 278	$ 272	$ 267
Collateral to secure surety facilities	3,000	3,599	3,599
Customer performance guarantees	9,066	10,455	12,242
Collateral in support of self-insured workers compensation obligations	1,430	1,130	880

As at January 1, 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.

18. 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)

19. PROVISIONS

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 4, 2010	$ 31,409	$ —	$ 31,409
Additions	28,659	1,023	29,682
Amounts used/realized	(18,058)	(1,023)	(19,081)
Unwinding of discount and effect of changes in the discount rate	113	—	113
Exchange differences	518	—	518
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

Were claims costs to differ by 10% from management's estimates, the warranty provisions would be an estimated $1,577 higher or $1,577 lower.

20. SUPPLEMENTARY EXPENSE INFORMATION

	Fiscal 2011	Fiscal 2010
Employee benefit expense	$ 139,988	$ 135,315
Depreciation of plant and equipment	8,262	8,193
Amortization of intangible assets	15,981	15,865

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

The Company has recognized $29,268 of investment tax credits ("ITCs") in Fiscal 2011 (2010: $2,735) as a reduction of cost of sales, as a result of delivering qualified alternative fuel vehicles during 2006 to 2010. The Company utilized $8,738 of these ITCs during Fiscal 2011 and applied them against income taxes payable. The ITCs are recognized only when there is reasonable assurance that the Company has complied with all conditions attached to the ITCs and that the ITCs will be received. As at January 1, 2012, the Company has $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. The Company anticipates that the unused ITCs will be utilized equally over the next four years and therefore management estimates that approximately $6,000 could be applied against next year's income taxes payable.

21. FIRST TIME ADOPTION OF IFRS

The Company has adopted IFRS on January 4, 2010 ("Transition date"). IFRS 1 First-time Adoption of International Financial Reporting Standards sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional consolidated statements of financial position date with all adjustments to assets and liabilities recorded to deficit unless certain exemptions or exceptions are applied. The Company has applied the following exemptions to its opening consolidated statements of financial position dated January 4, 2010:

<u>IFRS Exemption Options applied in the conversion from Canadian GAAP to IFRS.</u>

(a) Business Combinations and Consolidated and Separate Financial Statements – *IFRS 1.C1* indicates that a first-time adopter may elect not to apply *IFRS 3* Business Combinations retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has taken advantage of this election and has applied *IFRS 3* to business combinations that occurred on or after Transition date. In accordance with *IFRS 1*, if a company elects to apply *IFRS 3* Business Combinations retrospectively, *IAS 27* Consolidated and Separate Financial Statements must also be applied retrospectively. As the Company elected to apply *IFRS 3* prospectively, the Company has also elected to apply *IAS 27* prospectively. As well the Company has applied IFRS 1(2008).D8 exemption pertaining to an event-driven fair market valuation which allows the fair values determined at a qualifying event to be recorded as deemed cost under IFRS.

(b) Share-based payment transactions - *IFRS 1* encourages, but does not require, first-time adopters to apply *IFRS 2* Share-based payment that were granted after November 7, 2002 and vested before date of IFRS adoption. The Company has elected not to apply *IFRS 2* to awards that vested prior to Transition date.

(c) IAS 19 - Employee benefits - *IFRS 1* provides the option to retrospectively apply the corridor approach under *IAS 19*, Employee Benefits, for the recognition of actuarial gains and losses, or recognize all cumulative gains and losses deferred under Canadian GAAP in retained earnings at Transition date. The Company elected to recognize all cumulative actuarial gains and losses that existed at its Transition date in opening deficit for its employee defined benefit pension plan.

A similar exemption was taken to prospectively disclose from the date of transition to IFRS, the amounts required by *IAS 19.120A(p)*.

(d) *IAS 23* - Borrowing Costs - requires an entity to capitalize the borrowing costs related to all qualifying assets for which the commencement date for capitalization is on or after Transition date. Borrowing costs on qualifying assets prior to Transition date were expensed as incurred.

(e) Extinguishing financial liabilities with equity instruments - the Company has elected to use the exemption under *IFRS 1.D25* allowing a first-time adopter to apply the transitional provisions in *IFRIC 19* Extinguishing Financial Liabilities with Equity Instruments. Therefore, the Company only has to retrospectively apply *IFRIC 19* from the beginning of the earliest comparative period presented instead of all previous years. There was no material impact as a result of applying this standard.

(f) Leases were not reassessed to determine whether an arrangement contained a lease under *IFRIC 4*, "Determining whether an Arrangement contains a Lease" for contracts that were already assessed under previous GAAP given that they result in the same outcome.

(g) A first-time adopter may have established a deemed cost in accordance with previous GAAP for some or all of its assets and liabilities by measuring them at their fair value at one particular date because of an event such as a privatization or initial public offering if the measurement date is at or before the date of transition to IFRSs, the entity may use such event-driven fair value measurements as deemed cost for IFRSs at the date of that measurement. An entity shall recognize the resulting adjustments directly in retained earnings at the measurement date.

<u>IFRS Mandatory Exception applied in the conversion from Canadian GAAP to IFRS</u>

Estimates - Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

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

21. FIRST TIME ADOPTION OF IFRS (Continued)

Below is the Company's consolidated statement of financial position as at the Transition date under IFRS. IFRS employs a conceptual framework that is similar to Canadian GAAP. While the adoption of IFRS has not changed the actual cash flows of the Company, the adoption has resulted in significant changes to the reported financial position and results of operations of the Company. Presented below are reconciliations prepared by the Company to reconcile to IFRS the assets, liabilities, equity, net loss and cash flows of the Company from those reported under Canadian GAAP:

As at January 4, 2010	Canadian GAAP	Effect of transition to IFRS	Notes	IFRS
Assets				
Current				
Cash	$ 30,696	$ —		$ 30,696
Accounts receivable	103,520	—		103,520
Inventories	139,357	—		139,357
Prepaid expenses and deposits	5,679	—		5,679
Derivative financial instrument	420	—		420
Due from related party	510	—		510
Deferred tax assets	8,767	(8,767)	(1)	—
	288,949	(8,767)		280,182
Property, plant and equipment	37,215	—		37,215
Intangible assets	373,408	—		373,408
Embedded derivative instrument	—	2,771	(8)	2,771
Deferred tax assets	2,796	2,488	(1,2,3,9)	5,284
Goodwill	167,521	33,562	(5)	201,083
	$ 869,889	$ 30,054		$ 899,943
Liabilities				
Current				
Accounts payable and accrued liabilities	$ 166,044	$ (6,547)	(6)	$ 159,497
Income taxes payable	—	6,547	(6)	6,547
Deferred revenue	25,129	—		25,129
Provision for warranty costs	31,409	—		31,409
Current portion of obligations under finance lease	2,590	—	(4)	2,590
Other liabilities, Class B Shares and Class C Shares	—	21,018	(7)	21,018
	225,172	21,018		246,190
Accrued benefit liability	1,305	5,325	(3)	6,630
Obligations under finance lease	5,570	—	(4)	5,570
Performance unit plan liability	4,547	—		4,547
Deferred tax liabilities	133,164	(11,910)	(1,2,3, 9)	121,254
Long-term debt	376,333	—		376,333
Derivative financial instrument	2,091	—		2,091
Other liabilities, Class B Shares and Class C Shares	21,018	(21,018)	(7)	—
	769,200	(6,585)		762,615
Shareholders' equity				
Share capital	217,469	—		217,469
Deficit	(116,780)	36,639	(2,3,5, 8)	(80,141)
	100,689	36,639		137,328
	$ 869,889	$ 30,054		$ 899,943

21. FIRST TIME ADOPTION OF IFRS (Continued)

Notes

(1) IFRS re-labels “future income taxes” as “deferred taxes”. Also, a re-class entry from current to non-current is required as IAS 12 does not permit deferred tax assets and liabilities to be classified as current assets or current liabilities (i.e., all are considered non-current).

(2) Under Canadian GAAP, no deferred income tax asset or liability is recognized in respect of the difference between the historical exchange rate and the current exchange rate translation of non-monetary assets or liabilities of integrated foreign operations. However, IFRS contains no such exception and therefore deferred taxes are recognized in respect of these foreign exchange differences. More specifically, IAS 12 provides that deferred taxes should be recognized based on the difference between the carrying amount (which is determined using the historical exchange rate) of non-monetary assets and liabilities and the related tax basis (which is determined using the exchange rate on the consolidated statements of financial position date). The Company has evaluated these differences at January 4, 2010 and has identified an opening consolidated statements of financial position adjustment that would result in a credit to deficit at Transition date of $3.7 million, which increases deferred income tax assets by $3.7 million.

(3) The Company has chosen to use the optional IFRS 1 exemption and will recognize all unrecorded actuarial losses in deficit upon transition to IFRS, increasing the accrued benefit liability by $2.0 million. As well, IAS 19, requires the past service cost element of defined benefit plans to be expensed on an accelerated basis, with vested past service costs being expensed immediately. This resulted in an increase to the accrued benefit liability of $3.3 million. The total of both these adjustments increase accrued benefit liability by $5.3 million and increases deferred income tax assets by $1.9 million.

(4) IFRS re-labels “capital leases” as “finance leases”.

(5) As a result of the July 12, 2007 transaction (the “Reconsideration Event”), management has determined that the Company was deemed to be the primary beneficiary of NFL Holdings in accordance with Canadian Institute of Chartered Accountants Accounting Guideline No. 15 “Consolidation of Variable Interest Entities” (“AcG-15”), and as such the Company began effective July 12, 2007 to consolidate assets, liabilities and the results of operations of NFL Holdings and its subsidiaries. However, the Reconsideration Event did not constitute a business combination under IFRS as there is no “variable interests” model to determine which entities are consolidated. The Reconsideration Event is a qualifying event that allows for the application of the *IFRS 1(2008).D8* exemption pertaining to an event-driven fair market valuation which allows the fair values determined at a qualifying event to be recorded as deemed cost under IFRS. The July 12, 2007 adjustments effectively fair-valued the assets and liabilities of NFL Holdings as at that date, with the primary adjustments being made to the following account balances: intangible assets (primarily patents, customer relationships and trade names), inventories, deferred revenue, goodwill and the associated tax effects on the above adjustments. All of these assets and liabilities affected by the Reconsideration Event qualify for the deemed cost exemption with the exception of goodwill. This results in goodwill being re-instated to its original amount prior to the Reconsideration Event. The effect on the opening consolidated statements of financial position on transition to IFRS increases goodwill by $33.6 million and decreases deficit by $33.6 million.

In addition, and as a condition of IFRS 1 for applying this exemption, goodwill relating to business combinations that was acquired prior to Transition date was tested for impairment even though no impairment indicators were identified. No impairment existed at the date of transition.

(6) IAS 1.54 requires income taxes payable to be disclosed on a separate line on the consolidated statements of financial position.

(7) Re-class Other liabilities, Class B Shares and Class C Shares to current liability, as IFRS requires a liability to be disclosed as current unless there is an unconditional right to defer settlement of the liability for at least twelve months after the reporting period, whereas Canadian GAAP is less prescriptive and therefore it was classified as a non-current liability.

(8) Please refer to note 21f for details.

(9) Income tax impact of other IFRS adjustments above.

21. FIRST TIME ADOPTION OF IFRS (Continued)

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, total comprehensive income (loss) and cash flows for prior periods. The Company's first time adoption of IFRS did not have an impact on the total operating, investing or financing cash flows. The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted for equity and net earnings:

Reconciliation of Equity (in thousands of U.S. dollars)

Period ended	Notes	January 2, 2011	January 4, 2010
Shareholders' equity under Canadian GAAP - previously reported		$ **94,808**	$ **100,689**
Embedded derivative instrument	F	4,910	2,771
Shareholders' equity under Canadian GAAP - restated		**99,718**	**103,460**
Differences that increase (decrease) reported equity:			
1. Goodwill	A	33,562	33,562
2. Accrued benefit liability	B, E	(9,884)	(5,325)
4. Deferred Income tax	D	3,717	5,631
Total Shareholders' equity under IFRS		$ **127,113**	$ **137,328**

Reconciliation of Total Comprehensive Income (loss) (in thousands of U.S. dollars)

Period ended	Notes	52 weeks Ended January 2, 2011
Total Comprehensive income (loss) under Canadian GAAP		$ **3,874**
Differences that increase (decrease) reported earnings:		
1. Cost of sales		
i) Employee benefits	B	476
2. Foreign exchange loss	C	(312)
3. Income tax expense	D	(3,776)
4. Other comprehensive loss	E	(2,861)
5. Embedded derivative instrument	F	2,139
Total Comprehensive loss under IFRS		$ **(460)**

Explanation of transition to IFRS

In addition to the exemptions and exceptions discussed above, the following narrative explains the significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS accounting policies applied by the Company. Only the differences having an impact on the Company are described below. Relative to the impacts on the Company, the descriptive caption next to each lettered item below corresponds to the same lettered and descriptive caption in the tables above, which reflect the quantitative impacts from each change. Unless a quantitative impact was noted below, the impact from the change was not material to the Company.

A. Goodwill

As stated in the section entitled "IFRS Exemption Options," the Company applied the exemption in IFRS 1 for business combinations. Consequently, business combinations concluded prior to January 4, 2010 have not been restated. However, the Reconsideration Event is a qualifying event that allows for the application of the IFRS 1(2008).D8 exemption pertaining to an event-driven fair market valuation, which allows the fair values determined at a qualifying event to be recorded as a deemed cost under IFRS. The following account balances affected by the Reconsideration Event: intangible assets (primarily patents, customer relationships and trade names), inventories, long-term debt, deferred revenue and the associated tax effects on the above adjustments, qualify for the

21. FIRST TIME ADOPTION OF IFRS (Continued)

deemed cost exemption with the exception of goodwill. Goodwill does not qualify for this exemption because it does not meet the definition of a “recognizable intangible” in accordance with IAS 38 and would therefore result in goodwill being re-instated to its original amount prior to the Reconsideration event. The effect on the opening consolidated statements of financial position on transition to IFRS will increase goodwill by $33.6 million and decrease deficit also by $33.6 million. There is no tax impact of this adjustment.

B. Accrued benefit liability/employee benefits

As stated in the section entitled “IFRS Exemption Options” the Company elected to recognize all cumulative actuarial gains and losses that existed at the Transition Date in opening deficit for the employee defined benefit pension plan. Actuarial gains and losses are not amortized to the consolidated statements of net earnings and comprehensive income (loss) but rather are recorded directly to other comprehensive income (loss) at the end of each fiscal period. As a result, the Company adjusted its pension expense to remove the amortization of actuarial gains and losses. As well, IAS 19 requires the past service cost element of defined benefit plans to be expensed on an accelerated basis, with vested past service costs being expensed immediately. This resulted in an increase to the accrued benefit liability of $3.3 million at the Transition date and no amortization of past service costs from that point onward.

C. Foreign exchange loss

There is a foreign exchange translation effect on the opening IFRS consolidated statements of financial position adjustments relating to the Canadian dollar defined benefit pension plan (discussed in B, above).

D. Deferred income taxes/income tax expense

Translation of foreign non-monetary assets and liabilities from local currency to functional currency:

- Canadian GAAP - No future tax asset or future tax liability is recognized for exchange gains or losses with respect to the translation of foreign non-monetary assets and liabilities into the functional currency using historical rates for an integrated foreign operation.
- IFRS - No temporary difference exemption exists for foreign non-monetary assets and liabilities that are re-measured from the local currency into the functional currency using historical exchange rates. The Company must recognize a deferred tax asset or deferred tax liability for the temporary differences.

There is also the tax effect of the other transition adjustments described in B, C, and E.

E. Other comprehensive loss

Actuarial gains and losses on defined benefit pension plan:

- Canadian GAAP - 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 on a systematic and consistent basis, subject to a minimum required amortization based on a “corridor” approach. The “corridor” was 10% of the greater of the accrued benefit obligation at the beginning of the year and the fair value of plan assets at the beginning of the year. This excess of 10% is amortized as a component of pension expense on a straight-line basis over the expected average service life of active participants. Actuarial gains and losses below the 10% corridor are deferred.
- IFRS - The Company has elected to record net actuarial losses on the defined benefit pension plan of $2,861 (net of income tax recovery of $1,724) as other comprehensive loss.

F. Embedded derivative instrument

In 2011 Q1, an error was discovered pertaining to embedded derivatives associated with the Company’s right to prepay the Subordinated Notes (discussed in note 10a,b). Management has determined that no adjustment is required to previously issued Canadian GAAP financial statements. The fair value of the embedded derivative is adjusted at each reporting date and recorded as a fair value adjustment in the consolidated statements of net earnings and comprehensive income (loss). Accordingly, the error was corrected by recording the fair value of the embedded derivative asset of $2,771 and a corresponding credit to deficit at January 4, 2010. The fair value adjustment to the embedded derivative during the 52-week periods ended January 2, 2011 was a gain of $2,139 resulting in an embedded derivative asset of $4,910 as at January 2, 2011.