November 12, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS AND 39-WEEKS ENDED SEPTEMBER 30, 2012

Information in this Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of New Flyer Industries Inc. ("NFI") is supplemental to, and should be read in conjunction with, NFI's interim condensed consolidated financial statements (including notes) (the "Financial Statements") for the 13-week period ("2012 Q3") and the 39-week period ended September 30, 2012 ("2012 YTD"). This MD&A contains forward-looking statements, which are subject to a variety of factors that could cause actual results to differ materially from those contemplated by the forward-looking statements. See "Forward-looking Statements". Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the factors described in the public filings of NFI available on SEDAR at www.sedar.com. The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and, except where otherwise indicated, are presented in U.S. dollars, representing the functional and reporting currencies of NFI. Unless otherwise indicated, the financial information contained in this MD&A has been prepared in accordance with IFRS and references to "$" or "dollars" mean U.S. dollars.

MEANING OF CERTAIN REFERENCES

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

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

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

Forward-looking Statements

Certain statements in this MD&A are "forward-looking statements", which reflect the expectations of management regarding NFI's and the Company's future growth, results of operations, performance and business prospects and opportunities. The words "believes", "anticipates", "plans", "expects", "intends", "projects", "estimates" and similar expressions are intended to identify forward-looking statements. These forward-looking statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this MD&A. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not or the times at or by which such performance or results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements. Such differences may be caused by factors which include, but are not limited to, competition in the heavy-duty transit bus industry, availability of funding to the Company's customers to purchase buses and to exercise options and to purchase parts or services at current levels or at all, aggressive competition and reduced pricing in the industry, material losses and costs may be incurred as a result of product warranty issues, material losses and product liability claims, changes in Canadian or United States tax legislation, the Company's success depends on a limited number of key executives who the Company may not be able to adequately replace in the event that they leave the Company, the absence of fixed term customer contracts and the termination of contracts by customers for convenience, the current U.S federal "Buy-America" legislation, certain states' U.S. content bidding preferences and certain Canadian content purchasing policies may change and/or become more onerous, production delays may result in liquidated damages under the Company's contracts with its customers, the Company's ability to execute its planned production targets as required for current business and operational needs, currency fluctuations could adversely affect the Company's financial results or competitive position in the industry, the Company may not be able to maintain performance bonds or letters of credit required by its existing contracts or obtain performance bonds and letters of credit required for new contracts, third party debt service obligations may have important consequences to the Company, the covenants contained in the Company's senior credit facility ("Credit Facility") and the indenture governing its Debentures could impact the ability of the Company to fund dividends and take certain other actions, interest rates could change substantially and materially impact the Company's profitability, the

dependence on limited sources of supply, the timely supply of materials from suppliers, the possibility of fluctuations in the market prices of the pension plan investments and discount rates used in the actuarial calculations will impact pension expense and funding requirements, the Company's profitability and performance can be adversely affected by increases in raw material and component costs, the availability of labour could have an impact on production levels, battery-electric propulsion on transit buses is still largely unproven technology and there is no assurance that such technology will result in a product desired by customers, prototype buses must be tested and proven in operating conditions, a commercialized product must be marketed and sold to potential customers and there may be no significant demand for an all-electric bus from customers, the ability of the Company to successfully execute strategic plans and maintain profitability and risks related to acquisitions, joint ventures, and other strategic relationships with third parties. NFI cautions that this list of factors is not exhaustive. These factors and other risks and uncertainties are discussed in NFI's press releases and materials filed with the Canadian securities regulatory authorities and are available on SEDAR at www.sedar.com.

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

DEFINITIONS OF EBITDA, ADJUSTED EBITDA AND FREE CASH FLOW

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

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

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

Business Overview

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

Industry Overview

Funding for Heavy-Duty Transit market

On June 29, 2012, U.S. Congress approved a two-year transportation bill named “Moving Ahead for Progress in the 21st Century Act” (MAP-21/H.R 4348) whereby federal public transportation funding will continue equal to current funding levels plus inflation for two fiscal years.

According to the September 19, 2012 data alert issued by the Rockefeller Institute there was an increase in U.S. state tax collections during the second quarter of 2012 for the 10th consecutive quarter, with a reported 3.0% increase over the prior year.

Recent Ridership Trends

The latest data from the American Public Transportation Association's (APTA) ridership report indicated an increase of 1.62% in all modes of U.S. transit ridership during the second quarter of 2012 compared with the previous year, with bus ridership specifically up by 0.7%. This was the sixth consecutive quarter of U.S. public bus transit ridership increase. It is worth noting that although gas prices declined in the second quarter, bus ridership continues to increase. Management believes this is an indication of a growing public demand for public transportation services as a result of rising employment, improved services and better quality buses.

APTA ridership report also reported that ridership for all modes of public transportation in Canada increased by 1.9% for the second quarter of 2012 compared to second quarter of 2011.

Demand for Heavy-Duty Transit Buses

The Company tracks a new and potential order “pipeline” or “bid universe” as an indicator of management's forecast for overall market demand and bid activity for heavy-duty transit bus industry in North America. The pipeline of EUs consists of: bids received with proposal in process, bids submitted and awaiting award and solicitations that management expects to be released by U.S. and Canadian transit agencies within a five-year horizon.

Equivalent Units	Bids in Process	Bids Submitted	Expected Future Industry Procurement over 5 Years(1)	**Total**
Q3 2011	611	2,097	8,692	**11,400**
Q4 2011	1,848	2,186	9,266	**13,300**
Q1 2012	2,390	3,107	9,603	**15,100**
Q2 2012	2,156	4,574	8,454	**15,184**
Q3 2012(2)	3,334	2,542	11,854	**17,730**

(1) Management’s estimate of expected future industry procurement over the next five year is based on discussions directly with individual U.S. and Canadian transit authorities.
(2) Bids in process have been reduced from the amount reported on October 15, 2012 by 650 EUs to reflect a bid for an umbrella contract with a 'standing offer' open to public transit agencies across the United States, and as a result, New Flyer will not record these options as part of its backlog upon award.

Competitive Environment

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

Management believes that pricing remains aggressive among the remaining competitors; however the number of active bids has increased as evidenced by the above bid universe listing.

Aftermarket Parts

The Company provides parts and support for buses manufactured by both New Flyer and its competitors. Management believes that New Flyer provides the most comprehensive aftermarket support of all manufacturers in the industry today. Competitors in the aftermarket parts business include competing bus manufacturers, bus parts distributors and parts divisions of related industries (e.g., heavy-duty trucks). On an annual basis management estimates the Company's market share in the aftermarket industry; however during the quarterly reporting periods there is very little industry wide data is available to monitor the aftermarket parts market.

2012 Third Quarter in Review

Order activity during 2012 Q3 was 671 EUs, with a total value of $293.0 million, an increase from $181.6 million for 13-week period ended October 2, 2011 ("2011 Q3"). The 2012 Q3 order activity comprises new firm and new option orders of 447 EUs and exercised options of 224 EUs. Included in this order activity are a mix of new and repeat customers, with approximately 50% of the EUs for clean-propulsion vehicles (i.e., hybrid or CNG), reflecting diversification of New Flyer's portfolio of products and customers.

The Company has pending firm and option orders for an additional 472 EUs from a number of customers where approval had been granted by the customer's board, council, or commission, as appropriate, but purchase documentation had not yet been received by the Company and therefore not yet included in the backlog at September 30, 2012.

The most significant order in the period was announced in September 2012, where New Flyer was awarded an order for 90 60-foot articulated Xcelsior clean diesel buses (180 EUs) by New York City Transit Authority and the MTA Bus Company (together, "NYCT"). However, there was a delay in receiving a notice to proceed ("NTP") which caused an adjustment to the production schedule. The NTP has now been received and production has begun. This new contract adds to the Company's long-standing relationship with NYCT by providing a world-class next generation bus, supported by New Flyer's warranty, service and lifetime customer care. In the last two years, New Flyer has delivered 385 low-floor 40-foot CNG buses and recently built 90 40-foot Xcelsior clean diesel buses - both fleets currently operating in New York. In July 2012, NYCT assigned a contract they held with Daimler Buses North America, Inc. to New Flyer to build an additional 74 40-foot CNG buses. The Company has already begun production of those buses.

Deliveries of 386 EUs in 2012 Q3 decreased compared to 442 EUs in 2011 Q3 primarily as a result of buses being removed from the 2012 Q3 production schedule as discussed above.

The total backlog at the end of 2012 Q3 was 6,206 EUs and decreased by 0.3% from the backlog at the end of 13-week period ended July 1, 2012 ("2012 Q2") and now totals $2.64 billion. The decline in the backlog appears to be slowing as compared to the 19.4% decrease from the backlog at the end of 2011 Q3, primarily as a result of increased order intake in 2012 Q3 as compared to 2011 Q3. As well, the firm portion of the total backlog at the end of 2012 Q3 of 1,462 EUs increased 15.4% compared to the 1,267 EUs at July 1, 2012. This improving trend in total backlog is consistent with management's expectations taking into account the current market conditions and up-coming procurements.

On October 26, 2012, the Company announced that it has been awarded up to C$3.4 million in funding through Sustainable Development Technology Canada ("SDTC") to further enhance rapid-charge battery-electric bus propulsion technology. The SDTC project involves the development and implementation of four rapid-charge battery-electric transit buses and a high capacity charging station. These buses are targeted to be delivered in the fourth fiscal quarter of 2013 and will be operated by Winnipeg Transit in revenue service over a four-year period. This project will examine the technology and key operational performance issues including: the charging system, battery capacity, component life and reliability and the assessment of both operational and life cycle cost savings. Zero-Emission battery-electric propulsion transit buses are expected to significantly reduce greenhouse gas.

This announcement comes on the heels of the unveiling of the battery-electric bus prototype on June 1, 2012, an award by the Chicago Transit Authority to New Flyer on June 21, 2012 for two battery-electric buses and the unveiling of two New Flyer all-electric accessory hybrid-electric buses by Minneapolis Metro on August 14, 2012. New Flyer's electrification development has been focused on the Xcelsior platform, the Company's highly successful next-generation transit bus. Battery-electric buses should be considered an emerging technology as wide spread commercial adoption is still years away.

The total backlog combined with the recent order intake is expected to allow New Flyer to average a production line entry rate of approximately 36 EUs per week during the 13-week period ended December 30, 2012 ("2012 Q4"). This line entry rate reflects approximately 12 weeks of production as the Company does not plan to line enter new buses into production during the winter holiday period occurring the last six business days of this year. Management currently expects the line entry rate to be maintained at an average of 36 EUs per week for the 52-week period ended December 29, 2013 ("Fiscal 2013"); however this rate will vary quarter to quarter due to the mix of 40-foot and 60-foot buses.

In the aftermarket, gross orders received during 2012 Q3 for New Flyer core parts sales increased by 9.8% compared to 2011 Q3 and increased 11.5% compared to 2012 Q2. Gross orders during 2012 YTD were up 2.7% at $86.8 million compared to $84.5 million for the same period in 2011. Continued tight funding and increased competition has continued pricing pressure and lower margins.

Fiscal 2012 Third Quarter Financial Results

The Company generated consolidated revenue of $208.4 million for 2012 Q3, a decrease of 9.1% compared to consolidated revenue for 2011 Q3 of $229.3 million, and consolidated revenue for 2012 YTD of $663.0 million, a decrease of 1.0% from consolidated revenue for the 39-week period ended October 2, 2011 ("2011 YTD") of $669.5 million.

Revenue from bus manufacturing operations for 2012 Q3 was $179.3 million, a decrease of 10.7% from $200.7 million in 2011 Q3, and revenue of $572.9 million for 2012 YTD decreased 1.7% from $582.9 million for 2011 YTD. The decrease in 2012 Q3 revenue primarily resulted from a 12.7% decrease in total bus deliveries of 386 EUs in 2012 Q3 compared to 2011 Q3 deliveries of 442 EUs, offset by a 2.3% increase in average selling price per EU in 2012 Q3 compared to 2011 Q3. The decrease in deliveries is primarily a result of the delay in receiving the NTP for the order of 90 60-foot Xcelsior buses from NYCT, which caused the buses to be removed from the production schedule.

The average selling price per EU in 2012 Q3 was $464.6 thousand which increased compared to $454.2 thousand in 2011 Q3 as a result of a sales mix of higher priced models when comparing the two periods. Bus deliveries in 2012 YTD totaled 1,269 EUs, a decrease of 5.4% compared to 1,341 EUs in 2011 YTD. The 2012 YTD decrease in deliveries is partly due to lower production rates in 2012 YTD compared to 2011 YTD to meet management's plan for a sustainable production rate for the 2012 fiscal year, while the average selling price per EU in 2012 YTD was $451.5 thousand, an increase from $434.7 thousand in 2011 YTD.

Revenue from aftermarket operations (excluding used bus sales) in 2012 Q3 was $28.9 million, which represents an increase compared to $28.3 million in 2011 Q3, primarily due to an increase in sales to U.S. customers. Revenue from aftermarket operations (excluding used bus sales) for 2012 YTD was $89.4 million, an increase of 6.0% compared to $84.4 million in 2011 YTD. Used bus sales, which are not expected to continue in the future, were $0.7 million in 2012 YTD compared to $2.2 million in 2011 YTD.

Consolidated Adjusted EBITDA for 2012 Q3 totaled $14.1 million compared to $22.2 million in 2011 Q3, which represents a decrease of 36.6%. In comparing the respective periods, this decrease in consolidated Adjusted EBITDA is primarily a result of a decrease in bus deliveries and margins in 2012 Q3, a decrease in aftermarket margins, decreased realized foreign exchange gains when comparing the two periods and decreased investment tax credits realized in 2012 Q3 as these credits are realized only in periods with U.S. based taxable income. The benefit of the unused investment tax credits are deferred to future periods.

2012 Q3 bus manufacturing operations' Adjusted EBITDA of $9.6 million decreased 42.8% compared with 2011 Q3 bus manufacturing operations' Adjusted EBITDA of $16.8 million. This decrease is primarily the result of a 12.7% decrease in bus deliveries and lower contract margins due to sales mix. 2012 Q3 aftermarket operations' Adjusted EBITDA of $4.5 million (15.4% of revenue) decreased 17.6% compared to $5.4 million (19.0% of revenue) in 2011 Q3, primarily due to the lower profit margins driven largely by industry price pressure, the operating costs of the newer parts distribution centers required to achieve future revenue growth and the $0.2 million of decreased Adjusted EBITDA from the sale of used buses in 2011 Q3.

2012 YTD consolidated Adjusted EBITDA of $47.1 million (5.6% of revenue) decreased by 26.6% compared to 2011 YTD consolidated Adjusted EBITDA of $64.2 million (7.9% of revenue). Bus manufacturing operations' Adjusted EBITDA of $31.8 million for 2012 YTD decreased 30.5% compared to $45.8 million for 2011 YTD bus manufacturing operations' Adjusted EBITDA. This decrease in Adjusted EBITDA is primarily a result of lower volumes, decreased investment tax credits realized in 2012 YTD of $0.5 million compared to $5.5 million in 2011 YTD and a decrease in realized foreign exchange gains when comparing the two periods. Aftermarket operations' Adjusted EBITDA for 2012 YTD of $15.3 million (17.0% of revenue) represents a decrease of 16.9% over 2011 YTD aftermarket

operations' Adjusted EBITDA of $18.4 million (21.3% of revenue). This decrease is primarily due to lower margins caused by industry price pressure, decrease in used bus sales and the additional operating costs associated with the newer parts distribution centers.

Management expects Adjusted EBITDA during 2012 Q4 should be stronger than 2012 Q3, based on the impact derived from increased bus deliveries and the known contract sales mix, as all production slots in 2012 Q4 have been filled.

The Company reported net earnings of $1.7 million in 2012 Q3 representing a decrease compared to a net earnings of $15.1 million in 2011 Q3, primarily as a result of $13.5 million decrease in earnings from operations before interest and income taxes, $6.4 million increase in income taxes offset by a $6.5 million decrease of finance costs. The increase in income taxes when comparing the two periods was primarily the result of a significant deferred tax recovery in 2011 Q3 caused by the refinancing of the Credit Facility. 2012 YTD net earnings of $8.0 million increased compared to 2011 YTD net earnings of $1.4 million, due to significantly reduced finance costs which more than offset the decrease in earnings before interest and income taxes.

The Company generated Free Cash Flow of C$6.1 million during 2012 Q3 while declaring dividends of C$7.5 million as compared to C$0.02 million of Free Cash Flow generated in 2011 Q3 and declared dividends of C$6.7 million. During 2012 YTD, New Flyer generated Free Cash Flow of C$22.5 million while declaring dividends of C$26.6 million as compared to C$12.1 million of Free Cash Flow generated in 2011 YTD and declared dividends of C$16.5 million.

On August 8, 2012, the board of directors of NFI (the "Board") confirmed a new annual dividend rate equal to C$0.585 per Share, effective for all dividends declared after August 20, 2012. See "Dividend Policy". The reduced dividend is expected to produce an annual improvement in cash flows of C$12.2 million, based on the current number of Shares outstanding.

Management believes that the current dividend rate is sustainable due to, among other factors, improved cash flows due to lower level of dividends than in the past, 2012 Q3 Adjusted EBITDA was negatively impacted due to a temporary reduction in productions levels, the improvements in operational performance resulting from Operational Excellence initiatives and the market conditions which are beginning to show improvement.

During 2012 Q3, the Company decreased its cash by $64.1 million, primarily due to $62.4 million of net cash used to redeem the 14% subordinated notes of New Flyer Industries Canada ULC (the "Subordinated Notes") on August 20, 2012. This decrease in cash was expected as the Company raised the financing to redeem the Subordinated Notes through the issuance of the Debentures in 2012 Q2.

The September 30, 2012 liquidity position of $61.6 million is comprised of available cash of $3.1 million and $58.5 million of available secured revolving credit facility. As at September 30, 2012, there were $18.0 million of direct borrowings and $13.5 million of outstanding letters of credits related to the $90.0 million of secured revolving credit. Management believes that these funds, together with the cash generated from the Company's operating activities will provide the Company with sufficient liquidity and capital resources to meet its current and future financial obligations as they come due, as well as provide funds for its financing requirements, capital expenditures, dividend payments and other needs for the foreseeable future.

SELECTED FINANCIAL AND OPERATING INFORMATION

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

QUARTERLY AND ANNUAL FINANCIAL INFORMATION

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

Fiscal Period	Quarter	Revenue	Earnings from Operations	Net earnings (loss)	EBITDA[1]	Adjusted EBITDA[1]	Earnings (loss) per share[3]
2012	Q3	$ 208,421	$ 7,820	$ 1,686	$ 13,889	$ 14,072	$ 0.04
	Q2	226,980	10,686	3,604	11,055	16,366	0.08
	Q1	227,644	8,010	2,727	14,032	16,686	0.06
	Total	**$ 663,045**	**$ 26,516**	**$ 8,017**	**$ 38,976**	**$ 47,124**	**$ 0.18**
2011	Q4	$ 256,918	$ 30,063	$ 17,803	$ 35,214	$ 15,855	$ 0.40
	Q3	229,308	15,764	15,074	18,228	22,206	0.62
	Q2	225,853	12,811	(7,319)	18,765	20,037	(1.48)
	Q1	214,344	14,991	(6,361)	20,943	21,989	(1.29)
	Total	**$ 926,423**	**$ 73,629**	**$ 19,197**	**$ 93,150**	**$ 80,087**	**$ 0.98**
2010	Q4	$ 204,791	$ 2,894	$ (13,623)	$ 9,138	$ 17,822	$ (2.75)
	Q3	255,447	19,052	(3,215)	25,158	25,163	(0.65)
	Q2	280,540	27,284	33,167	33,183	33,310	6.97
	Q1	242,980	15,310	(13,928)	20,987	20,987	(2.94)
	Total	**$ 983,758**	**$ 64,540**	**$ 2,401**	**$ 88,466**	**$ 97,282**	**$ 0.50**

						Inventory comprised of:	
Fiscal Period	Quarter	Inventory, Beginning (equivalent units)[2]	New Line Entry (equivalent units)[2]	Deliveries (equivalent units)[2]	Inventory, Ending (equivalent units)[2]	Work in process (equivalent units)[2]	Finished goods (equivalent units)[2] & [4]
2012	Q3	187	382	386	183	178	5
	Q2	175	453	441	187	167	20
	Q1	189	428	442	175	163	12
	Total	**189**	**1,263**	**1,269**	**183**	**178**	**5**
2011	Q4	238	421	470	189	185	4
	Q3	236	444	442	238	233	5
	Q2	218	449	431	236	224	12
	Q1	209	477	468	218	200	18
	Total	**209**	**1,791**	**1,811**	**189**	**185**	**4**
2010	Q4	241	467	499	209	206	3
	Q3	262	505	526	241	236	5
	Q2	299	508	545	262	235	27
	Q1	245	507	453	299	287	12
	Total	**245**	**1,987**	**2,023**	**209**	**206**	**3**

COMPARISON OF THIRD QUARTER AND TRAILING TWELVE MONTHS RESULTS

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

	13-Weeks Ended September 30, 2012	13-Weeks Ended October 2, 2011	39-Weeks Ended September 30, 2012	39-Weeks Ended October 2, 2011	52-weeks Ended September 30, 2012	52-weeks Ended October 2, 2011
Statement of Earnings Data						
Revenue						
Canada	$ 28,469	$ 22,784	$ 108,882	$ 143,663	$ 139,073	$ 272,152
U.S.	150,869	177,962	464,056	439,264	661,350	490,950
Bus manufacturing operations	179,336	200,746	572,938	582,927	800,423	763,102
Canada	8,910	9,626	28,400	28,481	37,210	37,212
U.S.	20,175	18,936	61,700	58,097	82,326	73,982
Aftermarket operations	29,085	28,562	90,107	86,578	119,535	111,194
Total revenue	$ 208,421	$ 229,308	$ 663,045	$ 669,505	$ 919,958	$ 874,296
Earnings from operations	$ 7,820	$ 15,764	$ 26,516	$ 43,566	$ 56,578	$ 55,144
Earnings before interest and income taxes	6,940	20,421	18,443	36,791	50,304	33,764
Net (loss) earnings	1,686	15,074	8,017	1,394	25,820	(12,229)
EBITDA[(1)]	13,889	18,228	38,976	57,936	74,190	67,074
Adjusted EBITDA[(1)]						
Bus manufacturing operations including realized foreign exchange losses/gains	9,603	16,785	31,835	45,833	42,614	58,412
Aftermarket operations	4,469	5,421	15,289	18,399	20,365	23,642
Total Adjusted EBITDA[(1)]	$ 14,072	$ 22,206	$ 47,124	$ 64,232	$ 62,979	$ 82,054
Other Data (unaudited)						
Canada	68	52	259	385	329	775
U.S.	318	390	1,010	956	1,410	1,065
Total deliveries (equivalent units)[(2)]	386	442	1,269	1,341	1,739	1,840
Total capital expenditures	$ 3,558	$ 2,952	$ 9,570	$ 5,522	$ 12,739	$ 7,118
New options awarded	$ 37,778	$ 45,778	$ 37,778	$ 205,318	$ 42,207	$ 250,847
New firm orders awarded	137,879	4,345	200,215	80,366	206,499	150,841
Exercised options	117,337	131,490	355,447	461,339	419,836	492,098
Total firm orders	$ 255,216	$ 135,835	$ 555,662	$ 541,705	$ 626,335	$ 642,939

(Unaudited, US dollars in thousands)	September 30, 2012		January 1, 2012		January 2, 2011	
Selected Balance Sheet Data						
Total assets	$ 853,705		$ 870,462		$ 848,933	
Long-term financial liabilities	317,459		300,234		549,865	
Other Data		Equivalent Units[(2)]		Equivalent Units[(2)]		Equivalent Units[(2)]
Firm orders - USA	$ 589,876	1,323	$ 585,517	1,305	$ 694,141	1,518
Firm orders – Canada	59,872	139	72,390	171	138,517	379
Total firm orders[(5)]	649,748	1,462	657,907	1,476	832,658	1,897
Options – USA	1,884,433	4,494	2,204,229	5,286	2,761,784	6,610
Options - Canada	110,774	250	139,275	335	83,713	205
Total options[(6)]	1,995,207	4,744	2,343,504	5,621	2,845,497	6,815
Total Backlog	$ 2,644,955	6,206	$ 3,001,411	7,097	$ 3,678,155	8,712

Equivalent Units in Backlog (unaudited)	**39 Weeks Ended September 30, 2012**		**52 Weeks Ended January 1, 2012**		**52 Weeks Ended January 2, 2011**	
	Firm orders	Options	Firm orders	Options	Firm orders	Options
Beginning of period	1,476	5,621	1,897	6,815	2,082	6,908
New orders	475	90	182	477	1,013	914
Options exercised	780	(780)	1,208	(1,208)	825	(825)
Shipments	(1,269)	—	(1,811)	—	(2,023)	—
Cancelled/expired	—	(187)	—	(463)	—	(182)
End of period	1,462[(5)]	4,744 [(6)]	1,476	5,621	1,897	6,815

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

2012	549
2013	3,116 [(6)]
2014	423
2015	510
2016	56
2017	90
Total options	4,744 [(6)]

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

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

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

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

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

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

RECONCILIATION OF NET EARNINGS TO EBITDA AND ADJUSTED EBITDA

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

(Unaudited, US dollars in thousands)	13-Weeks Ended September 30, 2012	13-Weeks Ended October 2, 2011	39-Weeks Ended September 30, 2012	39-Weeks Ended October 2, 2011	52-weeks Ended September 30, 2012	52-weeks Ended October 2, 2011
Net earnings (loss)	$ 1,686	$ 15,074	$ 8,017	$ 1,394	$ 25,820	$ (12,229)
Addback[1]						
Income taxes (recovered)	1,338	(5,046)	(1,388)	(1,592)	7,695	(3,783)
Finance cost	3,916	10,393	11,815	36,989	16,792	49,776
Amortization	6,069	6,029	17,990	17,935	24,298	24,179
Loss (gain) on disposal of property, plant and equipment	—	—	—	—	35	(7)
Fair value adjustment to embedded derivatives	—	(42)	1,395	2,463	85	324
Unrealized foreign exchange loss (gain) on non-current monetary items and forward foreign exchange contracts	880	(8,180)	1,147	747	(535)	8,814
EBITDA[2]	13,889	18,228	38,976	57,936	74,190	67,074
Costs associated with assessing strategic and corporate initiatives[7]	183	413	352	2,731	366	2,731
Loss on exercise of redemption right[10]	—	—	5,530	—	5,530	—
Loss on debt repurchase[6]	—	3,565	—	3,565	1,157	3,565
Realized (unrealized) investment tax credits[8]	—	—	504	—	(20,026)	—
Past service pension costs[9]	—	—	1,762	—	1,762	—
Warranty expense assumed from the ISE bankruptcy[5]	—	—	—	—	—	8,684
Adjusted EBITDA[2]	$ 14,072	$ 22,206	$ 47,124	$ 64,232	$ 62,979	$ 82,054

RECONCILIATION OF CASH FLOW TO EBITDA AND ADJUSTED EBITDA

(Unaudited, US dollars in thousands)	13-Weeks Ended September 30, 2012	13-Weeks Ended October 2, 2011	39-Weeks Ended September 30, 2012	39-Weeks Ended October 2, 2011	52-weeks Ended September 30, 2012	52-weeks Ended October 2, 2011
Net cash generated by (used in) operations	$ 5,477	$ 8,995	$ 10,365	$ (27,346)	$ (759)	$ (9,657)
Addback[1]						
Changes in non-cash working capital items	1,913	713	11,999	42,211	31,531	25,244
Defined benefit funding	1,495	1,291	4,029	3,760	5,139	4,880
Defined benefit expense	(439)	(456)	(3,116)	(1,369)	(3,568)	(1,513)
Interest paid	3,895	11,494	12,506	38,027	18,297	50,565
Loss on exercise of redemption right[3]	—	—	(5,530)	—	(5,530)	—
Loss on debt repurchase	—	(3,565)	—	(3,565)	(1,157)	(3,565)
Realized (unrealized) investment tax credits	—	—	(504)	—	20,026	—
Warranty expense assumed from the ISE bankruptcy	—	—	—	—	—	(8,684)
Foreign exchange gain on cash held in foreign currency	2,086	(440)	2,183	1,582	2,675	2,983
Income taxes paid (recovered)[4]	(538)	196	7,044	4,636	7,536	6,821
EBITDA[2]	13,889	18,228	38,976	57,936	74,190	67,074
Costs associated with assessing strategic and corporate initiatives[7]	183	413	352	2,731	366	2,731
Loss on exercise of redemption right[3]	—	—	5,530	—	5,530	—
Loss on debt repurchase[6]	—	3,565	—	3,565	1,157	3,565
Realized (unrealized) investment tax credits[8]	—	—	504	—	(20,026)	—
Past service pension costs[9]	—	—	1,762	—	1,762	—
Warranty expense assumed from the ISE bankruptcy[5]	—	—	—	—	—	8,684
Adjusted EBITDA[2]	$ 14,072	$ 22,206	$ 47,124	$ 64,232	$ 62,979	$ 82,054

(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 NFI and/or the Company.

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

(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 of the Subordinated Notes.

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

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

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

SUMMARY OF FREE CASH FLOW

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

The Company generates its Free Cash Flow from its cash flows from operations and management expects this will continue to be the case for the foreseeable future. Net Cash flows generated by operating activities are significantly impacted by changes in non-cash working capital. The Company has a revolving credit facility to finance working capital and therefore has excluded the impact of working capital in calculating Free Cash Flow. As well, net cash generated by operating activities and net earnings are significantly affected by the volatility of current income taxes, which in turn produces temporary fluctuations in the determination of Free Cash Flow.

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

(Unaudited, US dollars in thousands)	13-Weeks Ended September 30, 2012	13-Weeks Ended October 2, 2011	39-Weeks Ended September 30, 2012	39-Weeks Ended October 2, 2011	52-weeks Ended September 30, 2012	52-weeks Ended October 2, 2011
Net cash generated by operating activities	$ 5,477	$ 8,995	$ 10,365	$ (27,346)	$ (759)	$ (9,657)
Changes in non-cash working capital items[3]	1,913	713	11,999	42,211	31,531	25,244
Interest paid[3]	3,895	11,494	12,506	38,027	18,297	50,565
Interest expense[3]	(3,736)	(8,762)	(11,658)	(35,358)	(16,810)	(48,385)
Income taxes paid (recovered) [3]	(538)	196	7,044	4,636	7,536	6,821
Current income tax (expense) recovered[3]	(3,576)	(11,742)	(7,746)	(11,356)	(18,037)	(13,516)
Principal portion of finance lease payments	(582)	(719)	(1,856)	(2,068)	(2,520)	(2,733)
Cash capital expenditures [9]	(60)	(958)	(3,349)	(2,977)	(4,057)	(4,319)
Proceeds from sale of redundant assets	—	—	—	—	35	7
Costs associated with assessing strategic and corporate initiatives[7]	183	413	352	2,731	366	2,731
Past service pension costs[8]	—	—	1,762	—	1,762	—
Defined benefit funding[4]	1,495	1,291	4,029	3,760	5,139	4,880
Defined benefit expense[4]	(439)	(456)	(3,116)	(1,369)	(3,568)	(1,513)
Foreign exchange gain on cash held in foreign currency[5]	2,086	(440)	2,183	1,582	2,675	2,983
Free Cash Flow (US$)[1]	6,118	25	22,515	12,473	21,590	13,108
U.S. exchange rate[2]	0.9945	0.9726	1.0005	0.9690	0.9997	0.9712
Free Cash Flow[1] (C$)	**6,084**	**24**	**22,526**	**12,086**	**21,584**	**12,730**
Free Cash Flow per Share (C$)[6]	0.1371	0.0010	0.5076	1.0558	0.4864	0.6468
Declared dividends on Shares (C$)	**7,508**	**6,715**	**26,591**	**16,506**	**36,134**	**21,402**
Declared dividend per Share (C$)[6]	$ 0.1692	$ 0.2747	$ 0.5992	$ 1.4419	$ 0.8142	$ 1.0875

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

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

(3) Changes in non-cash working capital are excluded from the calculation of Free Cash Flow as these temporary fluctuations are managed through the Company's $90.0 million revolving credit facility which is available for use to fund general corporate requirements including working capital requirements, subject to borrowing capacity restrictions. In accordance with IFRS

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

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

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

(6) Per Share calculations for Free Cash Flow (C$) and declared dividends (C$) are determined by dividing these amounts by the total of all issued and outstanding Shares using the weighted average over the period. The weighted average number of Shares outstanding for 2012 Q3, 2012 YTD and 52-week period ended September 30, 2012 were all 44,379,070. The weighted average number of Shares outstanding for 2011 Q3 was 24,446,643, 2011 YTD was 11,447,233 and during the 52-week period ended October 2, 2011 was 19,680,192.

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

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

(9) The Company has borrowed from its delayed draw portion of the Credit Facility. Proceeds from the loan were used to purchase profit margin improving capital assets in both 2012 Q3 and 2011 Q3 and thus had a positive impact on cash capital expenditures. 2011 Q3 and 2011 YTD Free Cash Flow has been restated since those periods had been previously reported using total capital expenditures.

Dividend Policy

It is the Board's intent to have a common share dividend policy that is consistent with New Flyer's financial performance and the need to retain certain cash flows to support the ongoing requirements of the business and to provide the financial flexibility to pursue revenue diversification and growth opportunities.

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

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

Currency Impact on the Company's Reported Results

The Financial Statements are presented in U.S. dollars. New Flyer operates in both the United States and Canada and, as a result, its combined reported results are impacted by fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar. 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 may be materially adversely affected as compared to the level determined with the prevailing exchange rate during the previous comparable reporting period. For that reason, management's strategy is to mitigate foreign currency exposure based on net cash flow rather than Adjusted EBITDA.

As at September 30, 2012, 9.2% (January 1, 2012: 11.0%) of the Company's firm order backlog consisted of orders representing Canadian dollar-denominated revenue. Based on this current backlog position and the Company's historically stable Canadian dollar-denominated operating costs, management expects the Company to generate a net Canadian dollar cash outflow during the 52-week period ending

December 30, 2012 (“Fiscal 2012”), primarily as a result of the higher percentage of U.S. dollar-denominated orders in the Company’s backlog.

The settlements of forward contracts were recorded as realized foreign exchange gains or losses in net earnings for the reported periods as the Company has elected not to use hedge accounting. During 2012 Q3, the Company recorded a realized foreign exchange gain of $0.8 million (2011 Q3: $2.2 million). This was comprised of a $0.5 million gain on settlement of foreign exchange contracts and a $0.3 million foreign currency gain on translation of Canadian dollar-denominated operations. During 2012 YTD, the Company realized a $1.7 million gain on settlement of $22.0 million of foreign exchange contracts (excluding the exchange of the $65.0 million proceeds from the Debentures) compared to the $0.6 million gain on settlement of $81.8 million of foreign exchange contracts in 2011 YTD.

At September 30, 2012, the Company had $21.0 million foreign exchange forward contracts to buy Canadian dollars that range in expiry from October to November 2012. The related asset of $0.1 million (as at January 1, 2012: $0.1 million) is recorded on the statement of financial position as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts has been recorded in the condensed consolidated statement of net earnings and comprehensive income (loss).

Fiscal and Interim Periods

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

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

Results of Operations

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

(Unaudited, US dollars in thousands)	**2012 Q3 (13-Weeks)**	**2011 Q3 (13-Weeks)**	**2012 YTD (39-Weeks)**	**2011 YTD (39-Weeks)**
Bus Manufacturing Revenue	$ 179,336	$ 200,746	$ 464,056	$ 582,927
Aftermarket Revenue	29,085	28,562	108,882	86,578
Total Revenue	$ 208,421	$ 229,308	$ 572,938	$ 669,505
Earnings from operations	7,820	15,764	26,516	43,566
Earnings before interest and income taxes	6,940	20,421	18,444	36,791
Earnings (loss) before income taxes	3,024	10,028	6,629	(198)
Net earnings for the period	1,686	15,074	8,017	1,394

Revenue

The Company generated consolidated revenue of $208.4 million for 2012 Q3, a decrease of 9.1% compared to consolidated revenue for 2011 Q3 of $229.3 million, and consolidated revenue for 2012 YTD of $663.0 million, a decrease of 1.0% from consolidated revenue for 2011 YTD of $669.5 million.

Revenue from bus manufacturing operations for 2012 Q3 was $179.3 million, a decrease of 10.7% from $200.7 million in 2011 Q3, and revenue of $572.9 million for 2012 YTD decreased 1.7% from $582.9 million for 2011 YTD. The decrease in 2012 Q3 revenue primarily resulted from a 12.7% decrease in total bus deliveries of 386 EUs in 2012 Q3 compared to 2011 Q3 deliveries of 442 EUs, offset by a 2.3% increase in average selling price per EU in 2012 Q3 compared to 2011 Q3. The decrease in deliveries is primarily a result of the delay in receiving the NTP for the order of 90 60-foot Xcelsior buses from NYCT, which caused the buses to be removed from the production schedule.

The average selling price per EU in 2012 Q3 was $464.6 thousand which increased compared to $454.2 thousand in 2011 Q3 as a result of a sales mix of higher priced models when comparing the two periods. Bus deliveries in 2012 YTD totaled 1,269 EUs, a decrease of 5.4% compared to 1,341 EUs in 2011 YTD. The 2012 YTD decrease in deliveries is partly due to lower production rates in 2012 YTD compared to 2011 YTD to meet management's plan for a sustainable production rate for the 2012 fiscal year, while the average selling price per EU in 2012 YTD was $451.5 thousand, an increase from $434.7 thousand in 2011 YTD.

Revenue from aftermarket operations (excluding used bus sales) in 2012 Q3 was $28.9 million, which represents an increase compared to $28.3 million in 2011 Q3. Revenue from aftermarket operations (excluding used bus sales) for 2012 YTD was $89.4 million, an increase of 6.0% compared to $84.4 million in 2011 YTD. Used bus sales in 2012 YTD were $0.7 million compared to $2.2 million in 2011 YTD.

Cost of sales

The consolidated cost of sales for 2012 Q3 of $191.3 million decreased 7.0% from 2011 Q3 consolidated cost of sales of $205.6 million. 2012 YTD consolidated cost of sales of $607.4 million increased by 1.9% from 2011 YTD of $595.9 million.

Costs of sales from bus manufacturing operations consist of direct contract costs and manufacturing overhead. The cost of sales from bus manufacturing operations for 2012 Q3 was $169.4 million, a decrease of 8.5% compared to $185.2 million in 2011 Q3. The decrease in cost of sales from bus manufacturing operations for 2012 Q3 primarily relates to the corresponding decrease in revenue when comparing the two periods. The cost of sales from bus manufacturing operations of $541.1 million in 2012 YTD increased by 1.1% as compared to $535.3 million in 2011 YTD.

The cost of sales from aftermarket operations was $21.9 million in 2012 Q3 which increased 7.3% compared to $20.4 million in 2011 Q3, and $66.3 million in 2012 YTD as compared to $60.6 million in 2011 YTD, an increase of 9.4%. The increase in aftermarket operations cost of sales for 2012 YTD primarily relates to an increase in sales volumes.

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

The consolidated SG&A for 2012 Q3 of $10.1 million decreased 0.8% compared with $10.2 million in 2011 Q3. Consolidated SG&A expenses for 2012 YTD were $31.5 million which decreased 5.6% compared to $33.4 million in 2011 YTD. The decrease is primarily a result of increased incremental costs of $2.4 million in 2011 YTD to assess strategic and corporate initiatives.

Realized foreign exchange gain

In 2012 Q3, the Company recognized a net realized gain of $0.8 million as compared with a net realized gain of $2.2 million in 2011 Q3 primarily as a result of the favourable settlement of foreign exchange transactions and realization of foreign exchange gains and losses on working capital accounts. Similarly, in 2012 YTD the Company recognized a net realized gain of $2.5 million as compared with a net realized gain of $3.4 million in 2011 YTD.

Earnings from operations

Consolidated earnings from operations for 2012 Q3 in the amount of $7.8 million (3.8% of revenue) decreased 50.4% compared to earnings from operations in 2011 Q3 of $15.8 million (6.9% of revenue). 2012 YTD consolidated earnings from operations were $26.5 million (4.0% of revenue), which represents a 39.1% decrease as compared to $43.6 million (6.5% of revenue) in 2011 YTD.

The earnings from bus manufacturing operations (including amortization and depreciation) for 2012 Q3 were $3.3 million, a decrease of 68.3% compared to earnings of $10.4 million for 2011 Q3. The decrease is primarily a result of a decrease in bus deliveries and margins in 2012 Q3, decreased investment tax credits realized in 2012 Q3 and a decrease in realized foreign exchange gains when comparing the two periods. There was no investment tax credits realized in 2012 Q3 as these credits are realized only in periods with U.S. based taxable income. The benefit of the unused investment tax credits are deferred to future periods.

2012 YTD earnings from bus manufacturing operations were $11.2 million (2.0% of revenue), a decrease of 55.6% compared to $25.2 million (4.3% of revenue) in 2011 YTD. 2011 YTD benefited from increased deliveries, incremental investment tax credits of $5.0 million and a $1.5 million favourable foreign currency impact offset by $2.4 of incremental costs to assess strategic and corporate initiatives.

The earnings from aftermarket operations of $4.5 million in 2012 Q3 decreased 17.6% compared to 2011 Q3 earnings of $5.4 million. 2012 Q3 aftermarket operations margin of 15.4% decreased in comparison to 19.0% in 2011 Q3, primarily due to general tightening of profit margins in this segment. In 2012 YTD, the earnings from aftermarket operations were $15.3 million (17.0% of revenue), compared to $18.4 million (21.3% of revenue) in 2011 YTD.

Unrealized foreign exchange (gain) loss

Unrealized foreign currency (gain) losses arise primarily from the revaluation of the Canadian dollar-denominated long-term debt. In 2012 Q3, the Company recognized a net unrealized loss of $0.9 million compared to a net unrealized gain of $8.2 million in 2011 Q3. These results consist of the following:

(Unaudited, US dollars in thousands)	2012 Q3	2011 Q3	2012 YTD	2011 YTD
Unrealized loss (gain) on Canadian–denominated long-term debt	$ 1,823	$ (12,062)	$ 1,702	$ (2,197)
Unrealized (gain) loss on forward foreign exchanges contracts	(185)	3,513	27	2,824
Unrealized (gain) loss on other non-current monetary assets/liabilities	(758)	369	(582)	120
	$ 880	$ (8,180)	$ 1,147	$ 747

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

In 2012 Q3, the Company recorded EBIT of $6.9 million compared to EBIT of $20.4 million in 2011 Q3. EBIT has been impacted by non-cash and non-recurring items as follows:

(Unaudited, US dollars in thousands)	2012 Q3	2011 Q3	2012 YTD	2011 YTD
Non-cash and non-recurring charges (recovery):				
Costs associated with assessing strategic and corporate initiatives	$ 183	$ 413	$ 352	$ 2,731
Fair value adjustment to embedded derivatives	—	(42)	1,395	2,463
Unrealized foreign exchange (gain) loss	880	(8,180)	1,147	747
Realized (unrealized) investment tax credits	—	—	504	—
Past service pension costs	—	—	1,762	—
Loss on debt repurchase	—	3,565	—	3,565
Loss on exercise of redemption right	—	—	5,530	—
Amortization	6,069	6,029	17,990	17,935
Total non-cash and non-recurring charges:	$ 7,132	$ 1,785	$ 28,680	$ 27,441

Absent these non-cash and non-recurring charges, the 2012 Q3 EBIT would have been $14.1 million compared to $22.2 million in 2011 Q3.

Finance costs

The finance costs for 2012 Q3 were $3.9 million, compared to $10.4 million in 2011 Q3, and $11.8 million in 2012 YTD, compared to $37.0 million in 2011 YTD. Finance costs for 2012 YTD decreased by $25.2 million primarily due to decrease in the interest on the Subordinated Notes as a result of certain Subordinated Notes repurchased in November 2011 and as part of NFI's August 2011 non-cash rights offering and redemption of the remaining Subordinated Notes on August 20, 2012, partially offset by interest on the Debentures.

Earnings (loss) before income taxes

Earnings before income taxes ("EBT") for 2012 Q3 was $3.0 million compared to EBT of $10.0 million in 2011 Q3 and EBT for 2012 YTD was $6.6 million compared to a loss before income taxes of $0.2 million in 2011 YTD.

Income tax expense (recovered)

The income tax expense for 2012 Q3 was $1.4 million, consisting of $3.6 million of current income tax expense and $2.2 million of deferred income tax expense recovered. In comparison, the income tax expense recovered for 2011 Q3 was $5.0 million, which consisted of $11.7 million of current income tax expense and $16.8 million of deferred income tax expense recovered. The increase in income taxes when comparing the two periods was primarily the result of a significant deferred tax recovery in 2011 Q3 caused by the refinancing of the Credit Facility.

The income tax expense recovered for 2012 YTD was $1.4 million, consisting of $7.7 million of current income tax expense and $9.1 million of deferred income tax expense recovered. In comparison, the income tax expense recovered for 2011 YTD was $1.6 million, consisting of $11.4 million of current income tax expense and $12.9 million of deferred income tax expense recovered.

Net earnings

The Company reported net earnings of $1.7 million in 2012 Q3 compared to net earnings of $15.1 million in 2011 Q3. The decrease in net earnings in 2012 Q3 is primarily attributable to the decrease in EBT offset by the increase in income taxes as noted above. The Company's net earnings can be subject to a high degree of volatility from one fiscal period to the next as a result of non-cash accounting adjustments and income taxes. Similarly, 2012 YTD net earnings of $8.0 million increased compared to 2011 YTD net earnings of $1.4 million.

Cash Flow

The cash flows of the Company are summarized as follows:

(Unaudited, US dollars in thousands)	2012 Q3	2011 Q3	2012 YTD	2011 YTD
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	$ 10,747	$ 21,398	$ 41,914	$ 57,528
Interest paid	(3,895)	(11,494)	(12,506)	(38,027)
Income taxes recovered (paid)	538	(196)	(7,044)	(4,636)
Net cash earnings	7,390	9,708	22,364	14,865
Changes in non-cash working capital items	(1,913)	(713)	(11,999)	(42,211)
Cash flow from operating activities	5,477	8,995	10,365	(27,346)
Cash flow from financing activities	(68,504)	(7,717)	(10,576)	(19,090)
Cash flow from investing activities	$ (3,189)	$ (2,765)	$ (9,040)	$ (5,415)

Cash flows from operating activities

The 2012 Q3 net operating cash inflow of $5.5 million is the result of $7.4 million of net cash earnings offset by an increase in non-cash working capital of $1.9 million, compared to 2011 Q3 net operating cash inflow of $9.0 million which is the result of $9.7 million of net cash earnings offset by an increase of $0.7 million in non-cash working capital.

The 2012 YTD net cash operating inflow of $10.4 million is the result of $22.4 million of net cash earnings offset by an increase of $12.0 million in non-cash working capital compared to 2011 YTD net cash operating outflow of $27.3 million resulting from an increase of $42.2 million in working capital, offset by $14.9 million of net cash earnings. The 2012 YTD non-cash working capital changes that are primarily responsible for the significant outflow during the period are due to decreased accounts payables and provision for warranty costs and increased inventories offset by decrease in accounts receivable.

Cash flow from financing activities

The Company's financing activities resulted in a net cash outflow of $68.5 million during 2012 Q3 compared to outflows of $7.7 million in 2011 Q3 as a result of redeeming the Subordinated Notes on August 20, 2012. The redemption was paid with proceeds from issuance of the Debentures that were received in 2012 Q2.

The Company's financing activities for 2012 YTD resulted in a net cash outflow of $10.6 million, compared to 2011 YTD net cash outflow of $19.1 million. The decreased inflows primarily relate to the net proceeds received from the issuance of Debentures and increased draws on bank revolver and term loans, offset partially by $12.2 million of increased dividends. The Company has been accessing its delayed draw term loan component of the Credit Facility to make planned growth capital expenditures to improve manufacturing efficiencies.

Cash flow from investing activities

2012 Q3 investing activities resulted in a net cash outflow of $3.2 million compared to $2.8 million in 2011 Q3.

The composition of the capital expenditures was as follows:

(Unaudited, US dollars in thousands)	2012 Q3	2011 Q3	2012 YTD	2011 YTD
Capital expenditures	$ 3,558	$ 2,952	$ 9,570	$ 5,522
Less capital expenditures funded by capital leases	(398)	(187)	(693)	(738)
Less capital expenditures funded by bank loans	(3,100)	(1,807)	(5,528)	(1,807)
Cash capital expenditure	60	958	3,349	2,977
Comprised of:				
Maintenance capital expenditures	60	835	810	1,733
Growth capital expenditures	—	123	2,539	1,244
	$ 60	$ 958	$ 3,349	$ 2,977

Liquidity and Capital Resources

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

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

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

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

The Company generated Free Cash Flow of C$6.1 million during 2012 Q3 while declaring dividends of C$7.5 million as compared to C$0.02 million of Free Cash Flow generated in 2011 Q3 and declared dividends of C$6.7 million. During 2012 YTD, New Flyer generated Free Cash Flow of C$22.5 million while declaring dividends of C$26.6 million as compared to C$12.1 million of Free Cash Flow generated in 2011 YTD and declared dividends of C$16.5 million.

On August 8, 2012, the Board confirmed a new annual dividend rate equal to C$0.585 per Share, effective for all dividends declared after August 20, 2012. See "Dividend Policy". The reduced dividend is expected to produce an annual improvement in cash flows of C$12.2 million, based on the current number of Shares outstanding.

Management believes that the current dividend rate is sustainable due to, among other factors, improved cash flows due to lower level of dividends than in the past, 2012 Q3 Adjusted EBITDA was negatively impacted due to a temporary reduction in productions levels, the improvements in operational performance resulting from Operational Excellence initiatives and the market conditions which are beginning to show improvement.

During 2012 Q3, the Company decreased its cash by $64.1 million, primarily due to $62.4 million of net cash used to redeem the Subordinated Notes on August 20, 2012. This decrease in cash was expected as the Company raised the financing to redeem the Subordinated Notes through the issuance of the Debentures in 2012 Q2.

The September 30, 2012 liquidity position of $61.6 million is comprised of available cash of $3.1 million and $58.5 million of available secured revolving credit facility. As at September 30, 2012, there were $18.0 million of direct borrowings and $13.5 million of outstanding letters of credits related to the $90.0 million of secured revolving credit. Management believes that these funds, together with the cash generated from the Company's operating activities will provide the Company with sufficient liquidity and capital resources to meet its current and future financial obligations as they come due, as well as provide funds for its financing requirements, capital expenditures, dividend payments and other needs for the foreseeable future.

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

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

	September 30, 2012	**July 1, 2012**	**January 1, 2012**
Senior Leverage Ratio (must be less than 2.50)	2.23	1.03	1.43
Total Leverage Ratio (must be less than 3.25) *	2.23	1.84	2.15
Interest Coverage Ratio (must be greater than 3.00)	3.75	—	—
Fixed Charge Coverage Ratio (must be greater than 1.10)	—	1.63	1.26

* Decreased from 3.75 effective August 20, 2012 as per 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 $122.0 million of the drawn term Credit Facility. The interest rate swap fixes the interest rate at 1.90% plus the applicable interest margin until April 2014. The fair value of the interest rate swap liability of $2,363 at September 30, 2012 (January 1, 2012: $2,811) was recorded on the interim condensed consolidated statements of financial position as a derivative financial instruments liability and the change in fair value has been recorded as finance costs for the reported period.

Credit risk

Financial instruments which potentially subject the Company to credit risk and concentrations of credit risk consist principally of cash, accounts receivable and derivatives. Management has assessed and believes that the credit risk associated with accounts receivable is mitigated by the significant proportion of 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 comes from the U.S. Federal Transit Administration, while the remaining 20% comes from state and municipal sources. The maximum exposure to the risk of credit for accounts receivables corresponds to their book value. Historically, the Company has experienced nominal bad debts as a result of the customer base being principally comprised of municipal and other local transit authorities.

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

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

	September 30, 2012	January 1, 2012
Current, including holdbacks	$ 87,370	$ 110,563
Past due amounts but not impaired		
1 – 60 days	3,560	2,671
Greater than 60 days	796	2,665
Less: Allowance for doubtful accounts	(60)	(49)
Total accounts receivables, net	$ 91,666	$ 115,850

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

Commitments and Contractual Obligations

Commitments

The following are the contractual maturities of the undiscounted cash flows of New Flyer's certain non-current financial liabilities and leases as at September 30, 2012:

(US dollars in thousands)	Total	2012	2013	2014	2015	2016	Post 2016
Senior term loan	$ 129,520	$ 1,190	$ 4,750	$ 123,580	$ —	$ —	$ —
Convertible debentures	85,310	2,370	4,062	4,062	4,062	4,062	66,692
Finance leases	3,631	616	1,706	883	234	138	54
Operating leases	24,071	720	2,246	2,034	1,784	1,821	15,466
	$ 242,532	$ 4,896	$ 12,764	$ 130,559	$ 6,080	$ 6,021	$ 82,212

As at September 30, 2012, outstanding surety bonds guaranteed by the Company amounted to $54.8 million, representing an increase compared to $44.4 million at July 1, 2012. The Company has not recorded a liability under these guarantees, as management believes that no material events of default exist under any applicable contracts with customers.

Under the Credit Facility, the Company has established a letter of credit sub-facility of $55.0 million. As at September 30, 2012, letters of credit amounting to $13.5 million remained outstanding under the letter of credit.

Future Changes to Accounting Standards

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

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

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

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

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

IFRS 9 Financial Instruments:

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

IAS 19 (Revised 2011) Employee Benefits:

The main changes to the standard are the elimination of the corridor approach (with all changes to the defined benefit obligation and plan assets recognized when they occur) and calculation of net interest using a high quality corporate bond yield. Retrospective application is required with certain exceptions, effective January 1, 2013. Management has not yet evaluated the impact of adoption of this standard 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 of adoption of this standard 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 for years beginning on or after July 1, 2012. Management does not expect a material impact to the financial statements as a result of adopting this standard.

IFRS 10 Consolidated Financial Statements:

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

IFRS 11 Joint Arrangements:

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

IFRS 12 Disclosure of Interest in Other Entities:

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

IAS 27 (as amended 2011) Separate Financial Statements:

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

IAS 28 (as amended 2011) Investments in Associates:

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

Controls and Procedures

Internal Controls over Financial Reporting

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

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

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

Disclosure Controls

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

Interim Condensed Consolidated Financial Statements of

NEW FLYER INDUSTRIES INC.

September 30, 2012

(Unaudited)

TABLE OF CONTENTS

	Page #
Unaudited Interim Condensed Consolidated Statements of Net Earnings and Comprehensive Income (Loss)	1
Unaudited Interim Condensed Consolidated Statements of Financial Position	2
Unaudited Interim Condensed Consolidated Statement of Changes in Equity	3
Unaudited Iterim Condensed Consolidated Statements of Cash Flows	4
Notes to Unaudited Interim Condensed Consolidated Financial Statements	5 - 17

NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET EARNINGS AND COMPREHENSIVE INCOME (LOSS)
For the period ended September 30, 2012
(unaudited, in thousands of U.S. dollars except per share figures)

	13-Weeks Ended September 30, 2012	13-Weeks Ended October 2, 2011	**39-Weeks Ended September 30, 2012**	39-Weeks Ended October 2, 2011
Revenue (note 13)	$ 208,421	$ 229,308	$ 663,045	$ 669,505
Cost of sales	191,280	205,569	607,441	595,887
Gross profit	17,141	23,739	55,604	73,618
Sales, general and administration costs and other operating expenses	10,117	10,192	31,546	33,417
Foreign exchange gain (note 12b)	(796)	(2,217)	(2,458)	(3,365)
Earnings from operations	7,820	15,764	26,516	43,566
Unrealized foreign exchange (gain) loss on non-current monetary items	880	(8,180)	1,147	747
Loss on exercise of redemption right (note 6a)	—	—	5,530	—
Fair value adjustment to embedded derivatives	—	(42)	1,395	2,463
Loss on debt for equity exchange	—	3,565	—	3,565
Earnings before interest and income taxes	6,940	20,421	18,444	36,791
Finance costs				
Interest on long-term debt and convertible debentures	3,253	7,554	9,735	33,561
Accretion in carrying value of long-term debt and convertible debentures	359	251	605	735
Other interest and bank charges	483	1,208	1,923	2,038
Fair market value adjustment on interest rate swap	(179)	1,380	(448)	655
	3,916	10,393	11,815	36,989
Earnings (loss) before income tax expense	3,024	10,028	6,629	(198)
Income tax expense (recovered) (note 5)				
Current income taxes	3,576	11,742	7,746	11,356
Deferred taxes recovered	(2,238)	(16,788)	(9,134)	(12,948)
	1,338	(5,046)	(1,388)	(1,592)
Net earnings for the period	$ 1,686	$ 15,074	$ 8,017	$ 1,394
Other comprehensive loss for the period, net of tax				
Actuarial loss on defined pension plan (note 11)	3,017	1,604	3,097	1,604
Total comprehensive (loss) income for the period	$ (1,331)	$ 13,470	$ 4,920	$ (210)
Net earnings per share (basic) (note 9)	$ 0.04	$ 0.62	$ 0.18	$ 0.12
Net earnings per share (diluted) (note 9)	$ 0.04	$ 0.62	$ 0.17	$ 0.12

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

NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

September 30, 2012

(unaudited, in thousands of U.S. dollars)

	September 30, 2012	January 1, 2012
Assets		
Current		
Cash	$ 3,065	$ 10,133
Accounts receivable (note 3,12d)	91,666	115,850
Inventories (note 4)	106,406	93,491
Derivative financial instruments (note 12b)	118	145
Prepaid expenses and deposits	4,100	5,077
	205,355	224,696
Property, plant and equipment	41,063	37,397
Long-term receivable	3,713	—
Embedded derivative instruments (note 12b)	—	3,684
Unused investment tax credits	23,262	23,766
Deferred tax assets (note 5)	47,789	36,558
Goodwill and intangible assets	532,523	544,361
	$ 853,705	$ 870,462
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 137,199	$ 152,207
Income taxes payable	4,334	4,964
Deferred revenue	6,485	1,897
Provisions for warranty costs (note 15)	22,744	32,808
Current portion of long-term debt (note 6)	18,000	9,000
Current portion of deferred compensation obligation	—	1,404
Current portion of obligations under finance leases	1,895	2,377
	190,657	204,657
Accrued benefit liability	13,604	9,136
Obligations under finance leases	1,492	2,102
Deferred compensation obligation	842	262
Deferred tax liabilities (note 5)	122,274	119,088
Long-term debt (note 6)	120,761	166,835
Convertible debentures (note 7)	56,123	—
Derivative financial instruments (note 12b)	2,363	2,811
	508,116	504,891
Commitments and contingencies (note 14)		
Shareholders' equity		
Share capital (note 8)	476,918	476,918
Equity component of convertible debentures (note 7)	3,753	—
Deficit	(135,082)	(111,347)
	345,589	365,571
	$ 853,705	$ 870,462

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

Authorized for issue by the board of directors on November 12, 2012.

NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended September 30, 2012

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

	Share Capital	Equity Component of Convertible Debentures (note 7)	Deficit	Total Shareholders' Equity
Balance, January 2, 2011	**$ 226,338**	**$ —**	**$ (99,225)**	**$ 127,113**
Shares issued in exchange for Subordinated Notes included in IDS units on August 19, 2011	248,542	—	—	248,542
Share issuance costs	(4,412)	—	—	(4,412)
Net earnings for the period	—	—	1,394	1,394
Other comprehensive loss for the period	—	—	(1,604)	(1,604)
Dividends declared on common shares	—	—	(16,716)	(16,716)
Deferred tax assets recognized as a result of historical share issuances	6,594	—	(1,077)	5,517
Balance, October 2, 2011	**477,062**	**—**	**(117,228)**	**359,834**
Net earnings for the period	—	—	17,803	17,803
Other comprehensive loss for the period	—	—	(386)	(386)
Dividends declared on common shares	—	—	(9,365)	(9,365)
Share issuance costs	(188)	—	—	(188)
Deferred tax assets recognized as a result of historical share issuances	44	—	(2,171)	(2,127)
Balance, January 1, 2012	**476,918**	**—**	**(111,347)**	**365,571**
Net earnings for the period	—	—	8,017	8,017
Other comprehensive loss for the period	—	—	(3,097)	(3,097)
Dividends declared on common shares	—	—	(26,555)	(26,555)
Equity component of convertible debentures (net of tax $1,509)	—	3,753	—	3,753
Deferred tax assets recognized as a result of share and debt issuances	—	—	(2,100)	(2,100)
Balance, September 30, 2012	**$ 476,918**	**$ 3,753**	**$ (135,082)**	**$ 345,589**

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

NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the period ended September 30, 2012

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

	13-Weeks Ended September 30, 2012	13-Weeks Ended October 2, 2011	**39-Weeks Ended September 30, 2012**	39-Weeks Ended October 2, 2011
Cash generated by (used in)				
Operating activities				
Net earnings for the period	$ 1,686	$ 15,074	$ 8,017	$ 1,394
Income tax expense (recovered)	1,338	(5,046)	(1,388)	(1,592)
Depreciation of plant and equipment	2,059	2,031	5,984	5,952
Amortization of intangible assets	4,010	3,998	12,006	11,983
Finance costs recognized in profit or loss	3,916	10,393	11,815	36,989
Unrealized foreign exchange (gain) loss on non-current monetary items	880	(8,180)	1,147	747
Foreign exchange gain on cash held in foreign currency	(2,086)	440	(2,183)	(1,582)
Fair value adjustment to embedded derivatives	—	(42)	1,395	2,463
Realized investment tax credits	—	—	504	—
Loss on debt for equity exchange	—	3,565	—	3,565
Loss on exercise of redemption right (note 6a)	—	—	5,530	—
Defined benefit expense (note 11)	439	456	3,116	1,369
Defined benefit funding	(1,495)	(1,291)	(4,029)	(3,760)
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	10,747	21,398	41,914	57,528
Changes in non-cash working capital items (note 10)	(1,913)	(713)	(11,999)	(42,211)
Cash generated by operations before interest and income taxes paid	8,834	20,685	29,915	15,317
Interest paid	(3,895)	(11,494)	(12,506)	(38,027)
Income taxes recovered (paid)	538	(196)	(7,044)	(4,636)
Net cash generated by (used in) operating activities	5,477	8,995	10,365	(27,346)
Financing activities				
Repayment of obligations under finance leases	(582)	(719)	(1,856)	(2,068)
Proceeds from issue of long-term debt	3,000	4,000	20,000	4,000
Costs associated with refinancing or debt issuance	—	(1,288)	—	(1,288)
Repayment of subordinated notes	(62,449)	—	(62,449)	—
Proceeds from issue of convertible debentures	—	—	65,000	—
Costs associated with convertible debenture issuance	—	—	(3,789)	—
Costs associated with share issuance	—	(4,412)	—	(4,412)
Dividends paid	(8,473)	(5,298)	(27,482)	(15,322)
Net cash used in financing activities	(68,504)	(7,717)	(10,576)	(19,090)
Investing activities				
Acquisition of intangible assets	(29)	—	(163)	(631)
Acquisition of property, plant and equipment	(3,160)	(2,765)	(8,877)	(4,784)
Net cash used in investing activities	(3,189)	(2,765)	(9,040)	(5,415)
Effect of foreign exchange rate on cash	2,086	(440)	2,183	1,582
Decrease in cash	(64,130)	(1,927)	(7,068)	(50,269)
Cash — beginning of period	67,195	25,121	10,133	73,463
Cash — end of period	$ 3,065	$ 23,194	$ 3,065	$ 23,194

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

1. CORPORATE INFORMATION

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

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

These unaudited interim condensed consolidated financial statements (the "Statements") were approved by the Company's board of directors on November 12, 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Statements is the same as those applied by the Company in its consolidated financial statements as at and for the 52-week period ended January 1, 2012 ("Fiscal 2011"). These Statements should be read in conjunction with the Company's consolidated financial statements for Fiscal 2011.

2.1 Statement of Compliance

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

2.2 Basis of preparation

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

In preparing these Statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied by the Company in its consolidated financial statements for Fiscal 2011.

2.3 Principles of consolidation

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

2.4 Standards recently adopted

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Standards issued but not yet adopted

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

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

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

IAS 19 (Revised 2011) Employee Benefits:

The main changes to the standard are the elimination of the corridor approach (with all changes to the defined benefit obligation and plan assets recognized when they occur) and calculation of net interest using a high quality corporate bond yield. Retrospective application is required with certain exceptions, effective January 1, 2013. Management has not yet evaluated the impact of adoption of this standard 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 of adoption of this standard 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 for years beginning on or after July 1, 2012. Management does not expect a material impact to the financial statements as a result of adopting this standard.

IFRS 10 Consolidated Financial Statements:

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

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.

2.6 Fiscal periods

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

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

3. ACCOUNTS RECEIVABLE

	September 30, 2012	January 1, 2012
Trade	$ 86,813	$ 111,047
Other	4,853	4,803
	$ 91,666	$ 115,850

4. INVENTORIES

	September 30, 2012	January 1, 2012
Raw materials	$ 57,927	$ 45,454
Work in process	47,167	46,340
Finished goods	1,312	1,697
	$ 106,406	$ 93,491

	13-Weeks Ended September 30, 2012	13-Weeks Ended October 2, 2011	**39-Weeks Ended September 30, 2012**	39-Weeks Ended October 2, 2011
Cost of inventories recognized as expense and included in cost of sales	$ 174,462	$ 189,015	$ 559,384	$ 553,338
Write-down of inventory to net realizable value in cost of sales	240	145	857	1,178
Reversals of a previous write-down in inventory	—	—	192	—

5. DEFERRED TAXES AND INCOME TAX EXPENSE

	September 30, 2012	January 1, 2012
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	$ 38,083	$ 33,416
Deferred tax asset to be recovered within 12 months	15,334	13,368
	53,417	46,784
Deferred tax liabilities:		
Deferred tax liability to be reversed after more than 12 months	(120,810)	(123,079)
Deferred tax liability to be reversed within 12 months	(7,092)	(6,235)
	(127,902)	(129,314)
Deferred taxes (net)	$ (74,485)	$ (82,530)

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

	September 30, 2012	January 1, 2012
As presented on statements of financial position:		
Deferred tax assets	$ 47,789	$ 36,558
Deferred tax liabilities	(122,274)	(119,088)
Deferred taxes (net)	$ (74,485)	$ (82,530)

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

	13-Weeks Ended September 30, 2012	13-Weeks Ended October 2, 2011	**39-Weeks Ended September 30, 2012**	39-Weeks Ended October 2, 2011
Beginning of period	$ (79,236)	$ (102,670)	$ (82,530)	$ (101,029)
Exchange differences	797	202	593	202
Tax recorded through net earnings	2,238	14,589	9,134	12,948
Tax recorded through other comprehensive loss	1,879	967	1,927	967
Tax recorded through equity	(163)	5,517	(3,609)	5,517
End of period	$ (74,485)	$ (81,395)	$ (74,485)	$ (81,395)

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

Deferred tax liabilities	Property, Plant and Equipment	Goodwill and Intangibles	Other	**Total**
January 1, 2012	$ (791)	$ (128,619)	$ 96	$ (129,314)
Tax reversed (charged) through net earnings	255	4,464	(1,798)	2,921
Tax recovered through equity	—	—	(1,509)	(1,509)
September 30, 2012	$ (536)	$ (124,155)	$ (3,211)	$ (127,902)

5. DEFERRED TAXES AND INCOME TAX EXPENSE (Continued)

Deferred tax assets	Provisions	Pension	Deferred Financing costs	Other	**Total**
January 1, 2012	$ 15,220	$ 3,435	$ 8,138	$ 19,991	$ 46,784
Tax (charged) recovered through net earnings	(4,244)	(295)	(1,269)	12,023	6,215
Tax recovered through other comprehensive loss	—	1,927	—	—	1,927
Tax recovered through equity	—	—	(487)	(1,613)	(2,100)
Exchange differences	213	48	114	216	591
September 30, 2012	$ 11,189	$ 5,115	$ 6,496	$ 30,617	$ 53,417

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 $7,728 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 in 2022.

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

	13-Weeks Ended September 30, 2012	13-Weeks Ended October 2, 2011	**39-Weeks Ended September 30, 2012**	39-Weeks Ended October 2, 2011
Earnings (loss) before income tax expense	$ 3,024	$ 10,028	$ 6,629	$ (198)
Tax calculated using a 35% U.S. tax rate	1,058	3,511	2,320	(68)
Tax effect of:				
Tax recorded through equity	(42)	(1,077)	(2,100)	(1,077)
Withholding and other taxes	227	383	477	1,662
Non-deductible expenses	13	(258)	1,450	1,443
Revision of tax estimates	53	49	(15)	49
Rate differential on income taxed at other than U.S. statutory rate	(511)	—	(2,816)	—
Foreign exchange impact	1,344	(6,872)	667	(2,971)
State taxes	(763)	(9)	(1,371)	67
Other	(41)	(773)	—	(697)
Income tax expense (recovered) for the period	$ 1,338	$ (5,046)	$ (1,388)	$ (1,592)

	13-Weeks Ended September 30, 2012	13-Weeks Ended October 2, 2011	**39-Weeks Ended September 30, 2012**	39-Weeks Ended October 2, 2011
Current income taxes for the period	$ 3,576	$ 11,742	$ 7,746	$ 11,356
Deferred income taxes (recovered) for the period	(2,238)	(16,788)	(9,134)	(12,948)
Income tax expense (recovered) for the period	$ 1,338	$ (5,046)	$ (1,388)	$ (1,592)

6. LONG-TERM DEBT

	Final Maturity	Face Value	Unamortized Transaction Costs	**Net Book Value September 30, 2012**	Net Book Value January 1, 2012
Subordinated Notes included in the IDS issue (a)	2012	$ —	$ —	$ —	$ 30,547
Separate Subordinated Notes (a)	2012	—	—	—	26,948
Term Credit Facility (b)	2014	122,000	(1,239)	120,761	109,340
Revolving Credit Facility (“Revolver”) (b)	2014	18,000	—	18,000	9,000
		140,000	(1,239)	138,761	175,835
Less: current portion of long-term debt		18,000	—	18,000	9,000
		$ 122,000	$ (1,239)	$ 120,761	$ 166,835

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

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

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

The redemption of the Subordinated Notes was financed with the net proceeds of NFI's public offering of Debentures (note 7).

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

b) On June 25, 2012, the Company entered into a third amended and restated credit agreement (the “Credit Facility”) with The Bank of Nova Scotia and Bank of Montreal, as co-lead arrangers and joint book runners, and a syndicate of leading Canadian and American financial institutions in the amount of $195.0 million and a $75.0 million accordion term loan feature. The Credit Facility matures on April 24, 2014 and consists of a $105.0 million term loan (the “Term Credit Facility”) and a $75.0 million accordion term loan feature, under which $17.0 million was drawn at September 30, 2012. As well, there exists a $90.0 million revolver, which includes a $55.0 million letter of credit sub-facility (the “Revolver”) (of which $18.0 million of direct borrowings and $13. 5 million of outstanding letters of credits were drawn at September 30, 2012).

Loans under the Term Credit Facility bear interest at a rate equal to LIBOR or a U.S. base rate for loans denominated in U.S. dollars and a Canadian prime rate or bankers’ acceptance rate for loans denominated in Canadian dollars, plus an applicable margin to those rates. As at September 30, 2012, the Company was in compliance in all material respects with all applicable obligations under the Credit Facility.

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

7. CONVERTIBLE DEBENTURES

On June 5, 2012, the Company completed a public offering of $65,000 aggregate principal amount of Debentures, bearing interest at a rate of 6.25% per annum, payable semi-annually on the last day of June and December commencing on December 31, 2012. The Debentures will mature on June 30, 2017.

The Debentures will be convertible at the holder's option into Shares at a conversion price of $10.00 per Share ("Conversion Option"). The Debentures will not be redeemable prior to June 30, 2015. On and after June 30, 2015 and prior to maturity, the Debentures may be redeemed in whole or in part from time to time at the Company's option, at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the Shares on the TSX for the 20 consecutive trading days preceding the date on which the notice of redemption is given is not less than 125% of the conversion price.

On the date of issuance, the gross proceeds in the amount of $65,000 were allocated firstly to the liability component of the Debentures based on the fair value of a similar instrument without a conversion option and the residual value being allocated to the Conversion Option. The fair value of the Debentures was estimated by calculating the discounted cash flows of the Debentures using prevailing market rates for similar non-convertible debt instruments. The fair value of the Debentures is classified as a liability, while the fair value of the Conversion Option, net of taxes, is classified as a separate component of shareholders' equity. Estimated transaction costs incurred for the issuance of the Debentures are $3,789. The unamortized transaction costs recorded against the Debenture liability will be accreted to nil through a periodic charge to accretion expense over the five-year term of the Debentures at the effective interest rate of the Debenture liability.

	Debenture liability component	Equity component of Debenture	**Net Book Value September 30, 2012**	Net Book Value January 1, 2012
Debentures	$ 59,412	$ 5,588	$ 65,000	$ —
Unamortized transaction costs	(3,289)	(326)	(3,615)	—
Deferred taxes	—	(1,509)	(1,509)	—
Net book value	$ 56,123	$ 3,753	$ 59,876	$ —

8. SHARE CAPITAL

Authorized			
Unlimited	Common Shares		
Issued		**September 30, 2012**	January 1, 2012
44,379,070	Common Shares (January 1, 2012: 44,379,070)	$ 476,918	$ 476,918

The dividends declared in the quarter ended September 30, 2012 ("2012 Q3") and the quarter ended October 2, 2011 ("2011 Q3") were $7,549 ($0.1701 per Share) and $6,640 ($0.2716 per Share) respectively. Dividends of $2,163 ($0.04875 per Share) were declared after September 30, 2012 but prior to the Statements being authorized for issue. The Statements do not reflect this dividend payable.

9. EARNINGS PER SHARE

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

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

9. EARNINGS PER SHARE (Continued)

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

	13-Weeks Ended September 30, 2012	13-Weeks Ended October 2, 2011	**39-Weeks Ended September 30, 2012**	39-Weeks Ended October 2, 2011
Net earnings attributable to equity holders	$ 1,686	$ 15,074	$ 8,017	$ 1,394
Add: Interest expense on convertible debentures, net of tax	658	—	959	—
Net earnings used to determine diluted earnings per Share	$ 2,344	$ 15,074	$ 8,976	$ 1,394
Weighted average number of Shares in issue	44,379,070	24,446,643	44,379,070	11,447,233
Add: assumed conversion of convertible debentures	8,828,523	—	8,828,523	—
Weighted average number of Shares for diluted earnings per Share	53,207,593	24,446,643	53,207,593	11,447,233
Net earnings per Share (basic)	$ 0.04	$ 0.62	$ 0.18	$ 0.12
Net earnings per Share (diluted)	$ 0.04	$ 0.62	$ 0.17	$ 0.12

10. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	**13-Weeks Ended September 30, 2012**	13-Weeks Ended October 2, 2011	**39-Weeks Ended September 30, 2012**	39-Weeks Ended October 2, 2011
Accounts receivable	$ 16,276	$ 31,883	$ 20,471	$ (9,855)
Income taxes recoverable	—	—	—	(5,110)
Inventories	(12,643)	(1,505)	(12,915)	(35,722)
Prepaid expenses and deposits	(363)	632	977	1,583
Accounts payable and accrued liabilities	(7,497)	(20,978)	(15,008)	36,958
Income taxes payable	3,574	1,345	(630)	1,345
Deferred revenue	4,894	(1,337)	4,588	(14,894)
Provision for warranty costs	(3,553)	(2,467)	(10,064)	(6,868)
Other	(2,601)	(8,286)	582	(9,648)
	$ (1,913)	$ (713)	$ (11,999)	$ (42,211)

11. EMPLOYEE FUTURE BENEFITS

Defined benefit plan

The Company recorded a net defined benefit pension expense of $439 and $3,116 for 2012 Q3 and 2012 YTD, respectively (compared to $456 for 2011 Q3 and $1,369 for the 39-weeks ended October 2, 2011 ("2011 YTD"), respectively).

The Company has decreased its estimated discount rate from 4.90% to 4.30% to reflect the interest rate environment at September 30, 2012. Net actuarial losses on defined benefit pension of $3,017 (net of income tax recovery of $1,927) were recorded in other comprehensive loss during 2012 Q3 (2011 Q3: $1,604). Cumulatively, $7,948 (net of income tax recovery of $4,888) of actuarial losses has been recorded directly through deficit.

11. EMPLOYEE FUTURE BENEFITS (Continued)

Defined contribution pension plans

In the United States, the Company maintains two savings retirement plans (401(k) plans). In Canada, the Company maintains a defined contribution plan for salaried employees. The Company recorded a net defined contribution pension expense of $463 and $1,475 for 2012 Q3 and 2012 YTD (2011 Q3: $478 and 2011 YTD: $1,517), respectively.

Cash payments contributed by the Company during 2012 Q3 and 2012 YTD for its defined benefit and defined contribution pension plans amounted to $1,958 and $5,492 (2011 Q3: $1,769 and 2011 YTD: $5,277), respectively.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Financial Instruments

The Company has made the following classifications:

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

(b) Risk Management

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

During 2012 Q3, the Company recorded a realized foreign exchange gain of $796 (2011 Q3: $2,217). This was comprised of a $537 gain on settlement of foreign exchange contracts and a $259 foreign currency gain on translation of Canadian dollar denominated operations.

At September 30, 2012, the Company has foreign exchange forward contracts that range in expiry dates from October to November 2012. The related asset of $118 (as at January 1, 2012: $145) is recorded on the interim condensed consolidated statements of financial position as a current derivative financial instrument and the corresponding change in the fair value of the foreign exchange forward contracts has been recorded in the interim condensed consolidated statements of net earnings and comprehensive income (loss).

In connection with the Credit Facility, the Company has an interest rate swap designed to hedge floating rate exposure for the term of the Credit Facility on $90,000 out of the $122,000 drawn term loan. The interest rate swap fixes the interest rate at 1.90% plus the applicable interest margin until April 2014 (maturity date). The fair value of the interest rate swap liability at September 30, 2012 is $2,363 (as at January 1, 2012: $2,811) and the change in fair value has been recorded as finance costs for the reported period. The related liability has been recorded on the interim condensed consolidated statements of financial position as a derivative financial instruments liability.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

An embedded derivative existed prior to August 20, 2012, related to the Company's right to prepay the Subordinated Notes. As a result of the Company exercising the redemption on August 20, 2012, the fair value of the embedded derivative asset at September 30, 2012 is $nil (as at January 1, 2012: $3,684).

(c) Liquidity Management

The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At September 30, 2012, the Company had a cash balance of $3,065 (as at January 1: 2012 $10,133) and the $90,000 Revolver. As at September 30, 2012, there was $18,000 of direct borrowings (as at January 1: 2012 $9,000) and $13,475 of outstanding letters of credits (as at January 1, 2012: $13,774) under the Revolver.

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

(d) Credit risk

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

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

	September 30, 2012	January 1, 2012
Current, including holdbacks	$ 87,370	$ 110,563
Past due amounts but not impaired		
1 – 60 days	3,560	2,671
Greater than 60 days	796	2,665
Less: Allowance for doubtful accounts	(60)	(49)
Total accounts receivables, net	$ 91,666	$ 115,850

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

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

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

	September 30, 2012	January 1, 2012
Senior Leverage Ratio (must be less than 2.50)	2.23	1.43
Total Leverage Ratio (must be less than 3.25)	2.23	2.15
Interest Coverage Ratio (must be greater than 3.00)	3.75	—
Fixed Charge Coverage Ratio (must be greater than 1.10)	—	1.26

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

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

13. SEGMENT INFORMATION

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

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

There is no inter-segment revenue. Unallocated items in the consolidated earnings before income taxes primarily include foreign exchange gains or losses, losses or gains on disposition of property, plant and equipment, depreciation of property, plant and equipment, amortization of intangible assets, interest expense and income, fair value adjustment to embedded derivatives, accretion in carrying value of long-term debt and gains and losses on the Company's interest rate swap. Corporate overhead costs are allocated fully to the Bus Operations segment. The Bus Operations segment has recorded vendor rebates of $1,321 (2011: $2,261), which have been recognized into earnings during 2012 YTD, but for which the full requirements for entitlement to these rebates have not yet been met.

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

Segment information about profits and assets is as follows:

	13-Weeks Ended September 30, 2012			
	Bus Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 179,336	$ 29,085	$ —	$ 208,421
Operating costs and expenses	170,712	24,616	—	195,328
Earnings (loss) before income tax expense	8,624	4,469	(10,069)	3,024
Total assets	372,614	99,764	381,327	853,705
Acquisition of property, plant and equipment	3,119	41	—	3,160
Acquisition of intangible assets	–	29	—	29
Goodwill	148,483	53,685	—	202,168

The recoverable amount of the Bus Operations segment as a cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the Board covering a four-year period, and discount rates between 9% and 13% per annum. Cash flows beyond that four-year period have been extrapolated using a 3% per annum growth rate. Impairment could occur if the cash flow projections are lower by 14.00 percentage points or if the discount rate is higher by at least 1.50 percentage points.

13. SEGMENT INFORMATION (Continued)

	13-Weeks Ended October 2, 2011			
	Bus Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 200,746	$ 28,562	$ —	$ 229,308
Operating costs and expenses	186,591	23,141	—	209,732
Earnings (loss) before income tax expense	14,155	5,421	(9,548)	10,028
Total assets	339,701	96,871	409,823	846,395
Acquisition of property, plant and equipment	2,711	54	—	2,765
Goodwill	148,483	53,685	—	202,168

	39-Weeks Ended September 30, 2012			
	Bus Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 572,938	$ 90,107	$ —	$ 663,045
Operating costs and expenses	546,179	74,929	—	620,997
Earnings (loss) before income tax expense	26,759	15,289	(35,419)	6,629
Total assets	372,614	99,764	381,327	853,705
Acquisition of property, plant and equipment	8,812	65	—	8,887
Acquisition of intangible assets	–	163	—	163
Goodwill	148,483	53,685	—	202,168

	39-Weeks Ended October 2, 2011			
	Bus Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 582,927	$ 86,578	$ —	$ 669,505
Operating costs and expenses	543,190	68,179	—	611,369
Earnings (loss) before income tax expense	39,737	18,399	(58,334)	(198)
Total assets	339,701	96,871	409,823	846,395
Acquisition of property, plant and equipment	4,629	155	—	4,784
Goodwill	148,483	53,685	—	202,168

14. COMMITMENTS AND CONTINGENCIES

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

At September 30, 2012, outstanding surety bonds guaranteed by the Company totaled $54,790 (as at January 1, 2012: $32,042). The Company has not recorded any liability under these guarantees, as management believes that no material events of default exist under any contracts with customers.

(b) The Company has a letter of credit sub-facility of $55,000 as part of the $90,000 Revolver. As at September 30, 2012, letters of credit totaling $13,475 (as at January 1, 2012: $13,774) remain outstanding under the letter of credit facility.

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

15. PROVISION FOR WARRANTY COSTS

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

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

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

		Total
January 1, 2012	$	32,808
Additions		11,697
Amounts used/realized		(22,813)
Unwinding of discount and effect of changes in the discount rate		78
Exchange differences		974
September 30, 2012	$	22,744