March 18, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS AND 52-WEEKS ENDED DECEMBER 28, 2008

Information in this Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of NFI (as defined below) is supplemental to, and should be read in conjunction with, NFI's consolidated financial statements (including notes) for the 52-week period ended December 28, 2008 ("Fiscal 2008"). 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 these 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 NFI's public filings available on SEDAR at www.sedar.com. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("GAAP") and, except where otherwise indicated, are presented in U.S. dollars, representing the functional currency of NFI. Unless otherwise indicated, the financial information contained in this MD&A has been prepared in accordance with GAAP and references to "$" or "dollars" mean U.S. dollars.

MEANING OF CERTAIN REFERENCES

New Flyer Industries Inc. ("NFI"), an Ontario corporation, is the issuer of the common shares and New Flyer Industries Canada ULC ("NFI ULC", together with NFI, the "Issuer"), an Alberta unlimited liability corporation, is the issuer of the subordinated notes ("Subordinated Notes"), that, together with the common shares, form the income deposit securities of the Issuer ("IDSs"). NFI and NFI ULC are not income trusts or partnerships and accordingly are not affected by the significant new taxes imposed on these types of entities beginning in 2011. As of December 28, 2008, 47,323,100 IDSs were outstanding. Each IDS represents one common share and C$5.53 principal amount of Subordinated Notes. Unless otherwise stated or the context otherwise requires, references to the "Issuer" refer, collectively, to NFI and NFI ULC. References in this MD&A to "New Flyer" or the "Company" are to New Flyer Holdings, Inc. ("NFL Holdings") and its consolidated subsidiaries immediately prior to, and to New Flyer Industries Inc. and its consolidated subsidiaries immediately following, the consummation of the transactions described in note 1(b) of the consolidated financial statements of NFI for Fiscal 2008 under "2007 transaction" (the "2007 Offering"). References in this MD&A to "management" are to management of the Company and the Issuer.

As a result of the 2007 Offering and related transactions, a reconsideration event occurred in which management determined that, effective July 12, 2007, NFI is deemed to be the primary beneficiary of NFL Holdings in accordance with CICA Accounting Guideline-15, and as such, for periods beginning on or after July 12, 2007, NFI began to consolidate assets, liabilities and the results of operations of NFL Holdings and its subsidiaries. For the purposes of this MD&A, the financial information of NFL Holdings is combined with NFI for the periods prior to July 12, 2007. Consolidated financial information for NFI is shown for periods beginning on or after July 12, 2007. Additional information about the Issuer and the Company 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 represents one 30-foot, 35-foot or 40-foot heavy-duty transit bus. One articulated bus represents two equivalent units. An articulated bus is an extra long bus (55-feet to 60-feet in length), composed of two passenger compartments connected by a joint mechanism. The joint mechanism allows the vehicle to bend when the bus turns a corner, yet have a continuous interior.

Forward-looking Statements

Certain statements in this MD&A are "forward-looking statements", which reflect the expectations of management regarding the Issuer's and the Company's future growth, results of operations, performance and business prospects and opportunities. The words "believes", "anticipates", "plans", "expects", "intends", "projects", "estimates" and similar expressions are intended to identify forward-looking statements. These forward-looking statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this MD&A. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not or the times at or by which such performance or results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements. Such differences may be caused by factors which include, but are not limited to, competition in the heavy-duty transit bus industry, availability of funding to the Company's customers at current levels or at all, material losses and costs may be incurred as a result of product warranty issues, material losses and costs may be incurred as a result of product liability claims, changes in Canadian or United States tax legislation, the Company's success depends on a limited number of key executives who the Company may not be able to adequately replace in the event that they leave the Company, the absence of fixed term customer contracts and the termination of contracts by customers for convenience, the current "Buy-America" legislation may change and/or become more onerous, production delays may result in liquidated damages under the Company's contracts with its customers, 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 NFI ULC's senior credit facility and Subordinated Note indenture could impact the ability of the Company to fund distributions and take certain other actions, the company has not finalized the refinancing of the senior credit facility, interest rates could change substantially and materially impact the Company's profitability, the dependence on limited sources of supply, 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 and the availability of labour could have an impact on production levels. The Issuer cautions that this list of factors is not exhaustive. These factors and other risks and uncertainties are discussed in the Issuer's materials filed with the Canadian securities regulatory authorities and available on SEDAR at www.sedar.com.

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

DEFINITIONS OF EBITDA, ADJUSTED EBITDA AND DISTRIBUTABLE CASH

References to "EBITDA" are to earnings before interest expense, income taxes, depreciation and amortization; losses or gains on disposal of property, plant and equipment; unrealized foreign exchange losses or gains on non-current monetary items and forward foreign exchange contracts; fair value adjustments to other liabilities – Class B and Class C common shares; fair value adjustment to embedded derivatives; non-cash impact of embedded derivatives and distributions on Class B and Class C common shares. References to "Adjusted EBITDA" are to EBITDA after adjusting for: the effects of certain non-recurring and/or non-operations related items that have impacted the business and are not expected to recur, including fair market value adjustments to inventory, prepaid expenses, deferred revenue and accounts payables and accrued liabilities resulting from purchase accounting for the August 19, 2005 Acquisition (as described in note 1 of the consolidated financial statements of NFL Holdings for the period ended December 31, 2006), the 2007 Offering related costs (as described in note 1(b) of the consolidated financial statements of NFI for Fiscal 2008, the transaction related costs for the April 10, 2008 offering (as described in note 1(a) of the consolidated financial statements of NFI for Fiscal 2008) and the September 2008 Offering and related transactions (described in note 1(a) of the consolidated financial statements of NFI for Fiscal 2008). The September 2008 Offering, the April 10, 2008 offering and the 2007 Offering are referred to herein as the "Follow-on Offerings".

Management believes EBITDA, Adjusted EBITDA, Distributable Cash (as defined below) and Distributable Cash Per Unit are useful measures in evaluating the performance of the Company and/or the Issuer. "Distributable Cash" means cash flows from operations adjusted for changes in non-cash working capital items, and effect of foreign currency rate on cash and increased for withholding taxes related to capital transactions, defined benefit funding, distributions on Class B and Class C common shares, costs related to the Follow-on Offerings, fair market value adjustment to inventory, fair market value adjustment to prepaid expenses, proceeds on sale of redundant assets, interest on Subordinated Notes forming part of IDSs and decreased for defined benefit expense, maintenance capital expenditures, fair market value adjustment to deferred revenue, fair market value adjustment to accounts payable and accrued liabilities and principal payments on capital leases. However, EBITDA, Adjusted EBITDA and Distributable Cash are not recognized earnings measures and do not have standardized meanings prescribed by GAAP. Readers of this MD&A are cautioned that EBITDA, Adjusted EBITDA and Distributable Cash should not be construed as an alternative to net earnings or loss determined in accordance with GAAP as an indicator of the Company's and/or the Issuer's performance or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. A reconciliation of net earnings and cash flow to EBITDA and Adjusted EBITDA, based on the Company's 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 Distributable Cash to cash flows from operations is provided under the heading "Summary of Distributable Cash".

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

Management's Discussion and Analysis

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 service. The Company's three facilities in Winnipeg, MB, St. Cloud, MN and Crookston, MN are all ISO 9001, ISO 14001 and OHSAS 18001 certified. With a skilled workforce of approximately 2,400 employees, New Flyer is a technology leader in the heavy-duty transit bus market, offering the broadest and most advanced product line in the industry.

The Company experienced significant achievements while managing the many challenges throughout the year. Some of the successes in Fiscal 2008 were record level revenues, deliveries, and backlog of orders. The Company was the 2008 recipient of the Canadian Innovation Award for Global Business of the Year by Economic Development Canada and was also named one of Canada's Top 100 Employers for 2009 and one of Canada's most earth-friendly employers. In addition, the Company completed two follow-on public offerings during 2008 which increased its public ownership from approximately 55% to approximately 95% and launched the next generation product Xcelsior. These successes were achieved during a year that started with substantial increase in bus production, significant increases in commodity prices and ended the year with a sharp decline in the Canadian dollar coinciding with the start of a global recession. Management has continued to adjust to the ever changing economic environment and views the upcoming year with both risks and opportunities. Management intends to focus significant attention on managing credit risks of the Company by refinancing existing credit line while monitoring its suppliers and customer's financial health. As well, management will be paying close attention to the potential positive impact of substantial transit assistance as a result of the U.S. House of Representatives stimulus bill and potential infrastructure stimulus in the Canadian budget.

A depreciating Canadian dollar and decrease in delivery levels offset continued growth in aftermarket operations resulting in consolidated revenue for the fourth quarter of 2008 ("2008 Q4") of $221.3 million, which represents a decrease of 5.9% compared to consolidated revenue for the fourth quarter of 2007 ("2007 Q4") of $235.2 million. Bus manufacturing revenue in 2008 Q4 of $198.9 million decreased by 7.1% compared to bus manufacturing revenue of $214.1 million in 2007 Q4. Total bus deliveries in 2008 Q4 were 492 equivalent units, which represents a volume decrease of 4.5% compared to 2007 Q4 deliveries of 515 equivalent units. This decrease in delivery volumes was due to engineering design deficiencies relating to a significant customer contract which caused an increased build up of 70 equivalent units and resulted in 284 equivalent units in inventory at December 28, 2008 as compared to 214 equivalent units at the end of the previous quarter. These engineering deficiencies have been resolved and management expects the contract to be substantially delivered during the first half of 2009. The average price per equivalent unit delivered in 2008 Q4 was $404.3 thousand compared to $415.7 thousand in 2007 Q4 representing a decrease of 2.7%. This decrease is primarily attributable to changes in the product mix and the negative impact of the significant and accelerated depreciation of Canadian denominated revenue during 2008 Q4. 2008 Q4 aftermarket operations revenue of $22.4 million increased by 5.9% compared to $21.1 million in 2007 Q4. The continued growth in aftermarket operations is a result of increase in market share as New Flyer buses continue to represent a larger share of the active installed fleet in the combined United States and Canadian market. However, the Company experienced a slower growth rate in 2008 Q4 as a result both a temporary labour strike at a major customer and more generally because of the depreciating Canadian dollar. Management believes that aftermarket revenue will continue to grow in 2009 as compared to Fiscal 2008.

During Fiscal 2008, the Company's consolidated revenue of $961.3 million increased by 8.4% compared to consolidated revenue for the 52-week period ended December 30, 2007 ("Fiscal 2007") of $887.1 million. Fiscal 2008 bus manufacturing revenue contributed to the majority of this increase as a result of higher production and delivery levels in Fiscal 2008 compared to Fiscal 2007. Bus manufacturing revenue during Fiscal 2008 totaled $865.3 million compared to $804.4 million in Fiscal 2007, representing an increase in bus manufacturing revenue of 7.6%. Bus deliveries in Fiscal 2008 were 2,164 equivalent units, which represents an increase of 8.0% compared to Fiscal 2007 bus deliveries of 2,003 equivalent units. The average selling price during Fiscal 2008 of $399.9 thousand per equivalent unit remained relatively stable compared to the average selling price of $401.6 thousand during Fiscal 2007. Unlike the results for 2008 Q4, Fiscal 2008 aftermarket revenue of $96.0 million increased significantly by 16.1% compared to Fiscal 2007 aftermarket revenue of $82.7 million which supports the conclusion that the slowdown in the growth rate of aftermarket operations only began late in the second half of 2008. It is management's belief that revenues from aftermarket operations will continue to experience solid growth during 2009 given revenue activity subsequent to year end.

Consolidated Adjusted EBITDA for 2008 Q4 totaled $16.8 million compared to $25.9 million in 2007 Q4, which represents a decrease of 35.3% which is primarily due to the significant depreciation of the value of the Canadian dollar during the period, product mix and reduced shipping volumes. The decrease in Adjusted EBITDA is primarily a result of the negative impact of the depreciating Canadian dollar which amounted to $4.0 million of the difference, a sales mix of lower margin buses in 2008 Q4 compared with high margin buses in 2007 Q4 which contributed to $4.8 million of the decline and a $1.3 million decrease in deliveries was offset by a reduction of $1.2 million in long-term incentive plan expenses. To illustrate the impact of the change in the value of the Canadian dollar, Adjusted EBITDA for these periods when translated to Canadian dollars would be C$21.0 million for 2008 Q4 and C$25.3 million for 2007 Q4, which represents a decrease of 17.2%. The Company's use of fixed price sales contracts resulted in lower margins on

Canadian dollar contracts as most were priced at the December 30, 2007 foreign exchange rate, whereas the current 2008 Q4 pricing to customers has resulted in setting higher prices and as such management expects that margins will return to higher levels once all old contracts have been delivered in the first half of 2009. The other factors in the decrease in consolidated Adjusted EBITDA is a result of a decrease in sales volume in 2008 Q4 as compared to 2007 Q4, as well as an unfavourable sales mix with a combined lower margin percentage in the current period as compared to the mix in 2007 Q4. Profit margins between orders vary significantly due to factors such as order size and product type. 2008 Q4 bus manufacturing operations Adjusted EBITDA of $12.9 million decreased by 39.8% compared to bus manufacturing operations Adjusted EBITDA of $21.4 million in 2007 Q4. The Adjusted EBITDA decrease in bus manufacturing operations is the result of foreign exchange, lower deliveries and lower contract margins related to product sales mix. The Company experienced a customer specific engineering design issue during 2008 Q4 which resulted in delayed bus completions and deliveries creating a temporary swelling of year-end inventory levels. Both the work in process and finished goods experienced inflated levels that are expected to decrease starting in second quarter of 2009 and continue to reduce through the second half of 2009. The Company is currently working on initiatives to reduce the amount of inventory needed while still achieving its production objectives through Company programs such as "Operational Excellence" designed to improve the Company's: quality, customer satisfaction, efficiency (while reducing material costs), eliminating waste, sustainability, safety and cleanliness as a necessary measure required to manage higher planned production rates. 2008 Q4 aftermarket operations Adjusted EBITDA of $3.9 million decreased by 10.8% compared to $4.4 million in 2007 Q4, as a result of foreign exchange and lower gross profit margins due to an increase in competitive pricing in this business segment.

Fiscal 2008 consolidated Adjusted EBITDA of $92.4 million decreased by 3.6% compared to Fiscal 2007 consolidated Adjusted EBITDA of $95.9 million. The foreign exchange rate had less impact year over year as the exchange rate remained fairly stable. The Adjusted EBITDA for these periods when translated to Canadian dollars would be C$98.0 million for Fiscal 2008 and C$101.7 million for Fiscal 2007, which also represents a decrease of 3.6%. Bus manufacturing operations Adjusted EBITDA of $72.9 million for Fiscal 2008 decreased 7.1% compared to $78.4 million for Fiscal 2007 bus manufacturing operations Adjusted EBITDA. This decline is primarily the result of increased selling and general administration spending of $5.6 million (an approximate 20% increase from Fiscal 2007) as the Adjusted EBITDA gains from higher delivery volumes were offset by lower contract margins in Fiscal 2008 related to product sales mix. This increase in selling and general administration spending was due to: increased investment in new product development culminating with the launch of the next generation product Xcelsior (including marketing of this new product), expansion of the U.S. aftermarket distribution center in Kentucky and investments in new business process improvements. Aftermarket operations Adjusted EBITDA for Fiscal 2008 of $19.6 million represents an increase of 12.3% over Fiscal 2007 aftermarket operations Adjusted EBITDA of $17.4 million, resulting primarily from increased sales volumes.

The Company reported net earnings of $53.8 million in 2008 Q4 compared with a net loss of 22.3 million in 2007 Q4. With consolidated Adjusted EBITDA of $16.8 million in 2008 Q4 compared to $25.9 million in 2007 Q4, the increase in net earnings is a result of lower non-cash charges and reduced interest costs. In 2008 Q4, non-cash recoveries totaled $44.5 million compared to non-cash charges included in 2007 Q4 earnings of $26.7 million. This change in non-cash items included in earnings primarily related to fair value adjustments to assets and liabilities, unrealized foreign exchange gains, and amortization. Unrealized foreign exchange gains credited to earnings in 2008 Q4 were $42.6 million compared to a gain of $3.2 million in 2007 Q4 and relate primarily to unrealized gains on Subordinated Notes, both forming part of an IDS and issued separately from an IDS. Realization of these foreign exchange gains is dependent on the exchange rate on the maturity date (August 2020) of the foreign currency denominated Subordinated Notes. Interest expense decreased $3.2 million in 2008 Q4 compared to 2007 Q4, due primarily to a $4.6 million decrease in distributions on the Class B and Class C common shares offset by $1.5 million increase in interest on the Subordinated Notes issued in connection with the Follow-on Offerings. The decrease in distributions on the Class C and Class C Shares resulted from the significant decrease in the number of the Class B and Class C Shares outstanding in 2008 Q4 compared to 2007 Q4 and the temporary deferral of dividends on those shares in 2008 Q4 as described on page [20] of this MD&A. The 2008 Q4 net earnings were also favorably impacted by a decrease in income tax expense of $10.7 million when comparing 2008 Q4 income tax recovered of $3.6 million to 2007 Q4 income tax expense of $7.1 million. The decrease in income tax is primarily related to the current income tax savings caused by the reduction in Canadian earnings in 2008 Q4 as a result of the increased interest expense caused by the 2008 Follow-on Offerings.

Fiscal 2008 net earnings of $87.6 million increased compared to Fiscal 2007 net loss of $130.7 million. Similar to the quarterly results, the increase in net earnings is primarily the result of non-cash recoveries; these totaled $52.5 million in Fiscal 2008 compared to non-cash charges of $145.9 million during Fiscal 2007. The decrease in non-cash charges is primarily attributable to a fair value adjustment to other liabilities, Class B and Class C common shares, and reduction in unrealized foreign exchange losses or gains. Fair value adjustments to other liabilities for Class B and Class C common shares resulted in a recovery of $23.5 million in Fiscal 2008 compared to a non-cash charge of $90.2 million in Fiscal 2007. Unrealized foreign exchange gains credited to earnings in Fiscal 2008 were $52.0 million, which is comprised primarily of unrealized gains on long-term debt that matures in 2020, compared to a loss of $26.5 million in Fiscal 2007. The Fiscal 2008 net earnings were also favorably impacted by a decrease in income tax expense of $17.9 million when comparing Fiscal 2008 income tax expense of $7.9 million to Fiscal 2007 income tax expense of $25.8 million. The decrease in income tax is related to both current and future income tax savings caused by the combination of reduction in Canadian earnings as discussed above, and the favourable impact the depreciation in the Canadian dollar had on future income taxes related to the U.S. denominated debt.

Management's Discussion and Analysis

During 2008 Q4 the Company generated Distributable Cash of C$15.5 million (C$0.31 per unit) and declared total distributions of C$14.4 million (C$0.29 per unit) resulting in excess Distributable Cash of C$1.1 million (C$0.02 per unit). By comparison, in 2007 Q4 the Company generated Distributable Cash of C$13.0 million (C$0.25 per unit) while declaring total distributions of the same amount resulting in no excess Distributable Cash. These increases in 2008 Q4 occurred even though Adjusted EBITDA decreased 35.3% in 2008 Q4 as compared to 2007 Q4. These results highlight the foreign exchange impact caused by the depreciation in the Canadian dollar. When the Canadian dollar depreciates against the U.S. dollar, the Company's U.S. dollar Adjusted EBITDA decreases, but excess Distributable Cash increases as it is not as significantly impacted due to the natural hedge provided by Canadian dollar denominated interest and income taxes.

The Company generated Distributable Cash of C$69.2 (C$1.33 per unit) million during Fiscal 2008 and declared distributions of C$55.2 million (C$1.06 per unit), which represents a Fiscal 2008 payout ratio of 79.7%. During Fiscal 2007, the Company generated Distributable Cash of C$66.1 million (C$1.23 per unit) and declared distributions of C$50.9 million (C$0.95 per unit), resulting in a payout ratio of 77.0%.

Cumulatively, since the Issuer's initial public offering on August 19, 2005, the Company has generated Distributable Cash of C$208.2 million (C$4.02 per unit) and has declared distributions of $173.0 million (C$3.34 per unit), resulting in a cumulative surplus of C$35.2 million (C$0.68 per unit).

The Company's positive cash flow from operations offset the financing and investing activities resulting in a net cash inflow of $5.4 million during Fiscal 2008. As a result, the Company's liquidity position as at December 28, 2008 totaled $70.7 million comprised of cash balances of $30.7 million and a $40.0 million revolving credit facility, which was undrawn as at December 28, 2008. In comparison, the Company began Fiscal 2008 with total liquidity of $65.3 million.

The Company is pleased to announce that it has secured commitments from a syndicate of existing lenders and one new lender, in excess of US$180 million to refinance New Flyer's existing US$180 million senior credit facility maturing in August 2009. The new senior credit facility is expected to be for a three-year term and comprised of a US$90 million term loan, a US$50 million revolver and a US$40 million letter of credit facility. The parties are currently in the process of settling the definitive documentation with respect to new credit facility and management expects the new facility to be on similar terms to the current senior credit agreement.

The total order backlog (including firm orders and options) of approximately $4.1 billion (representing 9,531 equivalent units) as at December 28, 2008 increased by 43.6% compared to the total order backlog of approximately $2.8 billion (representing 6,916 equivalent units) as at December 30, 2007. Currently the robust heavy-duty transit bus order pipeline of orders available for bid still continues, with a total of 11,472 EUs for 2009; these include bids that have been submitted, bids currently in process, and anticipated bid activity to the end of 2009 based on transit customers' fleet procurement plans. Management expects to leverage the Company's solid product positioning to continue to grow market share.

The orders awarded in Fiscal 2008 have provided a sufficient firm order backlog as of December 28, 2008 of $1.2 billion (2007: $1.2 billion), which represents 28.4% of the total backlog. The firm order backlog, which represents 2,498 equivalent units of production (2007: 2,844 equivalent units), provides the order visibility to allow the Company to efficiently plan the production schedule, thereby minimizing expenses and working capital requirements and is supportive of the current and planned increases to production levels.

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)

The quarterly financial information presented below for any period prior to the July 12, 2007 consolidation has been restated to the pro forma results as though NFI had always consolidated NFL Holdings.

Fiscal Period	Quarter	Revenue	Earnings from Operations	Net earnings (loss)	EBITDA(1)	Adjusted EBITDA(1)	Earnings (loss) per share(3)
2008	Q4	$ 221,295	$ 10,807	$ 53,804	$ 16,809	$ 16,767	1.14
	Q3	255,155	16,899	8,806	23,249	22,818	0.22
	Q2	260,416	19,689	(10,651)	26,398	25,879	(0.29)
	Q1	224,435	21,252	35,675	26,747	26,984	1.21
	Total	**$ 961,301**	**$ 68,647**	**$ 87,634**	**$ 93,203**	**$ 92,448**	**2.27**
2007	Q4	$ 235,220	$ 20,962	$ (22,291)	$ 26,943	$ 25,933	(0.76)
	Q3	201,608	9,422	(20,389)	14,849	23,789	(0.72)
	Q2	229,658	21,532	(84,996)	24,935	24,935	(4.25)
	Q1	220,611	17,109	(2,993)	21,233	21,233	(0.15)
	Total	**$ 887,097**	**$ 69,025**	**$ (130,669)**	**$ 87,960**	**$ 95,890**	**(5.35)**
2006	Q4	174,634	13,950	(22,282)	19,744	19,840	(1.11)
	Q3	160,500	11,417	(773)	17,186	17,186	(0.04)
	Q2	136,694	1,592	7,037	7,217	7,311	0.35
	Q1	135,836	9,256	10,791	15,099	15,099	0.54
	Total	**$ 607,664**	**$ 36,215**	**$ (5,227)**	**$ 59,246**	**$ 59,436**	**(0.26)**

						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)
2008	Q4	214	562	492	284	259	25
	Q3	243	554	583	214	209	5
	Q2	268	561	586	243	230	13
	Q1	265	506	503	268	262	6
	Total	**265**	**2,183**	**2,164**	**284**	**259**	**25**
2007	Q4	294	486	515	265	251	14
	Q3	241	519	466	294	274	20
	Q2	256	516	531	241	217	24
	Q1	255	492	491	256	204	52
	Total	**255**	**2,013**	**2,003**	**265**	**251**	**14**
2006	Q4	231	419	395	255	206	49
	Q3	207	416	392	231	197	34
	Q2	256	287	336	207	155	52
	Q1	215	360	319	256	153	103
	Total	**215**	**1,482**	**1,442**	**255**	**206**	**49**

COMPARISON OF 2008 AND 2007 ANNUAL AND FOURTH QUARTER RESULTS

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

	13-weeks Ended December 28, 2008	13-weeks Ended December 30, 2007	52-weeks Ended December 28, 2008	52-weeks Ended December 30, 2007[4]
Statement of Earnings Data				
Revenue				
Bus manufacturing operations	$ 198,899	$ 214,069	$ 865,290	$ 804,403
Aftermarket operations	22,396	21,151	96,011	82,694
Total revenue	$ 221,295	$ 235,220	$ 961,301	$ 887,097
Earnings from operations	$ 10,807	$ 20,962	$ 68,647	$ 69,025
Earnings (loss) before interest and income taxes	61,229	(902)	144,365	(50,364)
Net earnings (loss)	53,804	(22,291)	87,634	(130,669)
EBITDA[1]	16,809	26,943	93,203	87,960
Adjusted EBITDA[1]				
Bus manufacturing operations, includes realized foreign exchange losses	12,855	21,547	72,869	78,448
Aftermarket operations	3,912	4,386	19,579	17,442
Total Adjusted EBITDA[1]	$ 16,767	$ 25,933	$ 92,448	$ 95,890
Other Data (unaudited)				
Deliveries (equivalent units)[2]	492	515	2,164	2,003
Total capital expenditures	$ 2,057	$ 2,276	$ 8,414	$ 6,027
New options awarded	$ 773,077	$ 221,740	$ 1,747,233	$ 1,020,781
New firm orders awarded	126,199	302,949	326,947	726,598
Exercised options	65,457	36,679	429,174	408,499
Total firm orders	$ 191,656	$ 339,628	$ 756,121	$ 1,135,097

(Unaudited, US dollars in thousands)	December 28, 2008		December 30, 2007		December 31, 2006[5]	
Selected Balance Sheet Data						
Total assets	$ 899,344		$ 907,249		$ 842,805	
Long-term financial liabilities	415,814		694,749		606,753	
Other Data (unaudited)		Equivalent Units[2]		Equivalent Units[2]		Equivalent Units[2]
Firm orders - USA	$ 1,012,099	2,196	$ 1,020,360	2,267	$ 574,789	1,540
Firm orders – Canada	143,313	302	225,183	577	274,560	649
Total firm orders	1,155,412	2,498	1,245,543	2,844	849,349	2,189
Options – USA	2,625,454	6,164	1,282,483	3,241	795,743	2,523
Options - Canada	291,563	869	308,339	831	191,005	601
Total options	2,917,017	7,033	1,590,822	4,072	986,748	3,124
Total Backlog	$ 4,072,429	9,531	$ 2,836,365	6,916	$ 1,836,097	5,313

Notes:

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

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

(3) Earnings per share are those of NFI.

(4) Results for the 52-weeks ended December 30, 2007 consist of the combined results of NFI and NFL Holdings. See "Unaudited Combined Financial Information for the 52-weeks ended December 30, 2007".

(5) December 31, 2006 selected Balance Sheet data is that of NFL Holdings.

RECONCILIATION OF NET EARNINGS TO EBITDA AND ADJUSTED EBITDA

Because the Company distributes substantially all of its cash in Canadian funds on an ongoing basis, subject to certain restrictions, management believes that EBITDA and Adjusted EBITDA should be reported in both currencies as they are important measures in evaluating the historical performance of the Company. However, EBITDA and Adjusted EBITDA are not recognized earnings measures under GAAP and do not have standardized meanings prescribed by GAAP. 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 GAAP 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 Distributable Cash" above. The following tables reconcile net earnings or losses and cash flow from operations to EBITDA and Adjusted EBITDA based on the historical consolidated financial statements of the Company for the periods indicated.

(Unaudited, US dollars in thousands)	13-Weeks Ended December 28, 2008	13-Weeks Ended December 30, 2007	52-weeks Ended December 28, 2008	52-weeks Ended December 30, 2007[9]
Net earnings (loss)	$ 53,804	$ (22,291)	$ 87,634	$ (130,669)
Addback[1]				
Income taxes	(3,633)	7,100	7,926	25,848
Interest expense	11,058	9,739	40,029	33,444
Amortization	6,045	6,111	25,173	23,312
Gain on disposal of property, plant and equipment			(30)	(270)
Non-cash impact of embedded derivative	(25)		(25)	(4,006)
Fair value adjustment to embedded derivatives	(699)		(699)	2,636
Fair value adjustment to other liabilities – Class B and Class C Common Shares	(7,166)	24,972	(23,546)	90,168
Distributions on Class B and Class C Common Shares		4,550	8,776	21,013
Unrealized foreign exchange (gain) loss on non-current monetary items and forward foreign exchange contracts	(42,575)	(3,238)	(52,035)	26,484
EBITDA[2]	16,809	26,943	93,203	87,960
Costs related to the Follow-on Offerings[5]	18	130	592	371
Fair market value adjustment to deferred revenue[6]		(587)		(799)
Fair market value adjustment to accounts payables and accrued liabilities[7]	(60)	(553)	(1,347)	(553)
Fair market value adjustment to inventory[3]				8,754
Fair market value adjustment to prepaid expenses[4]				157
Adjusted EBITDA (US$) [2]	$ 16,767	$ 25,933	$ 92,448	$ 95,890
Adjusted EBITDA translated to C$ at an average foreign exchange rate[10]	$ 20,997	$ 25,347	$ 97,970	$ 101,677

RECONCILIATION OF CASH FLOW TO EBITDA AND ADJUSTED EBITDA

(Unaudited, US dollars in thousands)	13-Weeks Ended December 28, 2008	13-Weeks Ended December 30, 2007	52-weeks Ended December 28, 2008	52-weeks Ended December 30, 2007[9]
Cash (used in) provided by operations	$ 36,188	$ 25,912	$ 27,823	$ 33,377
Addback[1]				
Changes in non-cash working capital items	(29,572)	(20,983)	4,599	(18,017)
Defined benefit funding	774	862	2,545	2,314
Defined benefit expense	(368)	(511)	(1,583)	(1,859)
Interest expense	10,987	8,887	41,097	29,368
Distributions on Class B and Class C Shares		4,550	8,776	21,013
Foreign exchange (loss) gain on cash held in foreign currency	(441)	53	(333)	1,722
Current income taxes[8]	(759)	8,173	10,279	20,042
EBITDA[2]	16,809	26,943	93,203	87,960
Costs related to the Follow-on Offerings [5]	18	130	592	371
Fair market value adjustment to deferred revenue[6]		(587)		(799)
Fair market value adjustment to accounts payables and accrued liabilities[7]	(60)	(553)	(1,347)	(553)
Fair market value adjustment to inventory[3]				8,754
Fair market value adjustment to prepaid expenses[4]				157
Adjusted EBITDA (US$) [2]	$ 16,767	$ 25,933	$ 92,448	$ 95,890
Adjusted EBITDA translated to C$ at an average foreign exchange rate[10]	$ 20,997	$ 25,347	$ 97,970	$ 101,677

Notes:

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

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

(3) As a result of the revaluation of assets and liabilities resulting from the 2007 Offering, $8.8 million of the excess purchase price was allocated to inventory as a fair market value adjustment, resulting in a subsequent non-cash charge to operating costs and expenses upon the sale of the inventory.

(4) As a result of the revaluation of assets and liabilities resulting from the 2007 Offering, $0.2 million of the excess purchase price was allocated to prepaid expenses as a fair market value adjustment, resulting in a subsequent non-cash charge to operating costs and expenses upon the culmination of the earnings process for the year ended December 30, 2007 ("Fiscal 2007").

(5) Normalized to exclude non-recurring expenses related to the Follow-on Offerings completed on July 12, 2007, April 10, 2008 and September 3, 2008.

(6) As a result of the revaluation of assets and liabilities resulting from the 2007 Offering, $0.8 million of the excess purchase price was allocated to deferred revenue as a fair market value adjustment, resulting in a subsequent non-cash charge to revenue upon recognition of the applicable revenue.

(7) As a result of the revaluation of assets and liabilities resulting from the 2007 Offering, $1.9 million of the excess purchase price was allocated to accounts payable and accrued liabilities as a fair market value adjustment, resulting in a subsequent non-cash charge to operating costs and expenses upon the culmination of the earnings process.

(8) As a result of the Company's multinational corporate structure, current income taxes are subject to high degrees of volatility due to the mix of U.S. and Canadian earnings and other related factors. The Company has substantial foreign tax credits ("FTCs") available to apply against U.S. federal income taxes. As a result, until FTCs are fully utilized, income subject to U.S. tax is taxed at a substantially lower rate than income subject to Canadian tax.

(9) Results for the 52-weeks ended December 30, 2007 consist of the combined results of NFI and NFL Holdings. See "Unaudited Combined Financial Information for the 52-weeks ended December 30, 2007".

(10) U.S. exchange rate (C$ per US$) is the weighted average exchange rate applicable to the payment of distributions for the period, this rate is used for comparability to the calculation of Distributable Cash (C$).

SUMMARY OF DISTRIBUTABLE CASH

(Unaudited, US dollars in thousands, except per IDS and per share amounts and as indicated)

Management believes that Distributable Cash is a useful metric in measuring the financial performance of the Company and in determining the maximum amount of cash available for distribution to IDS holders. The following is a reconciliation of cash flows realized from operating activities (a GAAP measure) to Distributable Cash (a non-GAAP measure) based on the Company's historical financial statements. See "Definitions of EBITDA, Adjusted EBITDA and Distributable Cash".

	13-Weeks Ended December 28, 2008	13-Weeks Ended December 30, 2007	52-Weeks Ended December 28, 2008	52-Weeks Ended December 30, 2007[16]	Cumulative since IPO on August 19, 2005
Cash (used in) provided by operations	$ 36,188	$ 25,912	$ 27,823	$ 33,377	$ 12,633
Addback (deduct)					
Changes in non-cash working capital items[6]	(29,572)	(20,983)	4,599	(18,017)	29,335
Capital adjustments					
Maintenance capital expenditures[7]	(1,260)	(993)	(2,552)	(1,902)	(5,693)
Principal portion of capital lease payments	(393)	(275)	(1,427)	(867)	(3,279)
Non-recurring adjustments					
Costs related to the Follow-on Offerings	18	130	592	371	963
Proceeds from sale of redundant assets			30	352	382
Fair market value adjustment to deferred revenue[14]		(587)		(799)	(799)
Fair market value adjustment to accounts payables and accrued liabilities[15]	(60)	(553)	(1,347)	(553)	(1,900)
Fair market value adjustment to inventory[8]				8,754	18,065
Fair market value adjustment to prepaid expenses[9]				157	347
Withholding taxes[10]					9,111
Entity specific adjustments					
Distributions on Class B and Class C Shares[11]		4,550	8,776	21,013	61,828
Interest on Subordinated Notes forming part of IDSs[11]	7,516	5,741	28,033	18,075	64,518
Defined benefit funding[12]	774	862	2,545	2,314	9,565
Defined benefit expense[12]	(368)	(511)	(1,583)	(1,859)	(5,461)
Foreign exchange gain on cash held in foreign currency[13]	(441)	53	(333)	1,722	1,305
Distributable Cash (US$)[1]	12,402	13,346	65,156	62,138	190,920
U.S. exchange rate[2]	1.2523	0.9774	1.0616	1.0631	1.0906
Distributable Cash[1] (C$)	**15,531**	**13,044**	**69,171**	**66,056**	**208,209**
Distributable Cash per unit[18] (C$)	0.31	0.25	1.33	1.23	4.02
Summary of Cash Distributions:[3]					
Interest on Subordinated Notes forming part of IDSs (C$)	9,159	5,693	30,222	19,128	70,535
Dividends on Common Shares forming part of IDSs (C$)	4,683	2,910	15,450	9,228	33,594
Dividends on Class C Shares (C$)[17]		4,680	8,627	22,506	66,610
Dividends on Class B Shares (C$)[17]		569	1,551	2,205	6,635
Loan advanced to New Flyer LLC (C$)[17]	559		559		559
Foreign currency impact on Class B and C dividends (C$)[4]		(799)	(1,259)	(2,189)	(4,956)
Total Cash Distributions (C$)	**14,401**	**13,053**	**55,150**	**50,878**	**172,977**
Total Cash Distributions per unit[18] (C$)	0.29	0.25	1.06	0.95	3.34
Excess (shortfall) of Distributable Cash (C$)	**1,130**	**(9)**	**14,021**	**15,178**	**35,232**
Excess of Distributable Cash per unit[18] (C$)	$ 0.02	$ 0.00	$ 0.27	$ 0.28	$ 0.68
Payout ratio	92.7%	100.1%	79.7%	77.0%	83.1%

During the 13 weeks ended December 28, 2008, NFI advanced to New Flyer LLC an amount equivalent to the dividends that would have been declared on its Class B and Class C Shares but were deferred until the first quarter of 2009.

Since the Initial Public Offering ("IPO") of the Issuer on August 19, 2005, the Company has generated cumulative Distributable Cash in excess of total distributions made, as shown in the table above under the heading "Summary of Distributable Cash". The boards of directors of the Issuer determine the level of distributions made in accordance with the applicable distribution policies. The Issuer increased the level of distributions twice during Fiscal 2007 and have maintained distributions at the increased level throughout Fiscal 2008. The boards of directors of the Issuer have determined the current level of distributions with a view to ensuring the long term sustainability of distributions and establishing such reserves as appropriate for potential future investment and other corporate purposes.

	13-Weeks Ended December 28, 2008	13-Weeks Ended December 30, 2007	52-Weeks Ended December 28, 2008	52-Weeks Ended December 30, 2007(16)	Cumulative since IPO on August 19, 2005
Total Cash Distributions per IDS (C$):					
Interest on Subordinated Notes (C$)	0.1936	0.1936	0.7744	0.7744	2.6084
Dividends on Common Shares (C$)	0.0989	0.0989	0.3956	0.3682	1.2093
Total Distribution per IDS (C$)(3)	0.2925	0.2925	1.1700	1.1426	3.8177
Issued and outstanding IDSs(5)	47,323,100	29,410,000	38,685,420	24,446,484	26,502,610
Dividends per Class C Share (C$):(3)					
Preferential Dividend (C$)(17)		0.1229	0.3687	0.4916	1.5330
Residual Dividend (C$)(17)		0.0989	0.2967	0.3682	1.1104
Total Cash Dividend (C$)(17)		0.2218	0.6654	0.8598	2.6434
Issued and outstanding Class C Shares(5)	2,053,657	21,095,378	10,630,562	26,628,719	22,938,571
Dividends per Class B Share (C$):(3)					
Preferential Dividend (C$)(17)		0.1229	0.3687	0.4916	1.5330
Residual Dividend (C$)(17)		0.0989	0.2967	0.3682	1.1104
Total Cash Dividend (C$)(17)		0.2218	0.6654	0.8598	2.6434
Issued and outstanding Class B Shares(5)	463,875	2,562,529	2,528,594	2,562,529	2,295,464
Total of all issued and outstanding Shares including IDSs(5)	49,840,632	53,067,907	51,844,576	53,637,732	51,736,645

The following shows the relationship between the Company's cash flows from operating activities, net earnings, Distributable Cash, and distributions made for the periods indicated:

(Unaudited, US dollars in thousands)	13-Weeks Ended December 28, 2008	52-Weeks Ended December 28, 2008	Fiscal 2007	Fiscal 2006
A. Cash flows from operating activities (excluding interest on Subordinated Notes forming part of IDSs and distributions on Class B and Class C Shares)	$ 43,704	$ 64,632	$ 72,465	$ 28,563
B. Cash flows from operating activities before changes in non-cash working capital items (excluding interest on Subordinated Notes forming part of IDSs and distributions on Class B and Class C Shares)	14,132	69,231	54,448	46,037
C. Net earnings (loss) (excluding interest on Subordinated Notes forming part of IDSs and distributions on Class B and Class C Shares)	61,320	124,443	(96,808)	31,845
D. Earnings from operations (excluding interest on Subordinated Notes forming part of IDSs and distributions on Class B and Class C Shares)	10,807	68,647	69,025	36,215
E. Distributable Cash	12,402	65,156	62,138	46,427
F. Actual cash distributions paid or payable relating to the period	11,500	51,949	47,860	42,857
G. Excess (shortfall) of cash flows from operating activities (adjusted as described above) over cash distributions paid (A – F)	32,204	12,683	24,605	(14,294)
H. Excess of cash flows from operating activities before changes in non-cash working capital items (adjusted as described above) over cash distributions paid (B – F)	2,632	17,282	6,588	3,180
I. Excess (shortfall) of net earnings (loss) (adjusted as described above) over cash distributions paid (C – F)	49,820	72,494	(144,668)	(11,012)
J Excess (shortfall) of earnings from operations (adjusted as described above) over cash distributions paid (D – F)	(693)	16,698	21,165	(6,642)
K. Excess of Distributable Cash over cash distributions paid (E – F)	902	13,207	14,278	3,570

The Company generates its Distributable Cash from its cash flows from operations and its earnings from operations and management expects that this will continue to be the case for the foreseeable future. As shown in the table above, item A can be significantly impacted by changes in non-cash working capital and item C can be significantly impacted by non-cash items and charges. Additionally, cash flows from operating activities and net earnings (loss) are significantly affected by the volatility of current income taxes, which in turn produces temporary fluctuations in the determination of Distributable Cash. As a result, the alternative measures of (i) cash flows from operating activities before changes in non-cash working capital items and (ii) earnings from operations are also shown in the table. A detailed reconciliation of Distributable Cash to cash flows from operating activities is shown in the table above under the heading "Summary of Distributable Cash". A detailed description of the non-cash charges affecting net earnings is contained in the chart below under the heading "Earnings before interest and income taxes and other items".

Notes:

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

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

(3) The Issuer declared distributions of C$1.17 per IDS cumulatively for the 52-week period ended December 28, 2008. Distributions on IDSs are paid on a monthly basis to the securityholders of record on the last business day of the previous month.

NFL Holdings has three classes of issued and outstanding common shares. All of the Class A common shares of NFL Holdings are held by NFI. Cumulatively, dividends of C$0.4164 per Class A common share have been declared for the 52-week period ended December 28, 2008. These dividends are subject to withholding taxes of 5%, resulting in payment to NFI of C$0.3956 per Class A common share for the 52-week period ended December 28, 2008. The net cash dividend received by NFI on the Class A common shares of NFL Holdings is utilized to fund the dividend on the common share component of the IDS distributions.

Management, through New Flyer LLC and, prior to the September 2008 Offering, New Flyer Transit L.P. (collectively, the "Existing Investors"), hold all of the issued and outstanding Class B and Class C Shares of NFL Holdings. Each Class B Share and Class C Share is entitled to a preferential dividend and residual dividend. The preferential dividend is equivalent to the interest on the Subordinated Note component of the IDSs on a tax-adjusted basis. The residual dividend is equivalent to the dividend on the common share component of the IDS. For the 52-week period ended December 28, 2008, the Company declared preferential and residual dividends totaling C$0.6654 per Class B and Class C Share. Dividends are declared on a monthly basis for the Class B and Class C Shares. Dividends on the Class B and Class C Shares held by New Flyer Transit L.P. prior to the September 2008 Offering were calculated in Canadian dollars, but paid in U.S. dollars at a rate of 1.2038 C$ per US$.

Prior to the commencement of Fiscal 2008, the Class B Shares were subject to certain subordination provisions set out in the constating documents of NFL Holdings. These subordination provisions were applicable from the date of the closing of the IPO until the date on which both of the following conditions were satisfied: (i) (A) the Issuer's consolidated Adjusted EBITDA for the 52-week period ending at the end of the Issuer's second fiscal quarter in 2007 is at least $69.1 million and the Issuer's consolidated Adjusted EBITDA for its 2006 fiscal year is at least $69.1 million, or (B) the Issuer's consolidated Adjusted EBITDA for any fiscal year beginning with Fiscal 2007 is at least $69.1 million; and (ii) the Issuer has earned distributable cash (and has paid distributions on the IDSs) in an amount not less than C$2.20 per IDS in the prior twenty-four month period.

As the Issuer's consolidated Adjusted EBITDA for Fiscal 2007 was $95.9 million and the Issuer earned and paid distributions on IDSs in excess of C$2.20 per IDS in the twenty-four month period ending Fiscal 2007, the Class B Shares are no longer subject to the subordination provisions.

(4) Represents the foreign currency impact of the difference between the 1.2038 C$ per US$ exchange rate used to calculate the U.S. dollar dividends on the Class B and Class C Shares that were held by New Flyer Transit L.P. and the actual weighted average exchange rate at the time the payments were made.

(5) Issued and outstanding figure is calculated using the weighted average over the period.

(6) Changes in non-cash working capital are excluded from the calculation of Distributable Cash as these temporary fluctuations are managed through the Company's $40.0 million revolving credit facility which is available for use to fund general corporate requirements including working capital requirements, subject to borrowing capacity restrictions.

(7) Maintenance capital expenditures represent cash expenditures required to maintain normal operations which exclude growth capital expenditures that are intended to enhance future earnings. Fiscal 2008 amount includes a reclassification of previously recorded maintenance capital expenditures to growth capital expenditures to properly reflect Winnipeg facility expansion.

(8) As a result of the revaluation of assets and liabilities resulting from the 2007 Offering, $8.8 million of the excess purchase price was allocated to inventory as a fair market value adjustment, resulting in a subsequent non-cash charge to operating costs and expenses upon the sale of the inventory.

(9) As a result of the revaluation of assets and liabilities resulting from the 2007 Offering, $0.2 million of the excess purchase price was allocated to prepaid expenses as a fair market value adjustment, resulting in a subsequent non-cash charge to operating costs and expenses upon the culmination of the earnings process in Fiscal 2007. As well, as a result of the acquisition of NFL Holdings by NFI on the IPO, $0.2 million of the excess purchase price was allocated to prepaid expenses as a fair market value adjustment, resulting in a subsequent non-cash charge to operating costs and expenses upon the culmination of the earnings process in Fiscal 2006.

(10) Payment of withholding taxes related to the period prior to NFI's acquisition of NFL Holdings on August 19, 2005.

(11) Distributions on Class B and Class C Shares and the interest on Subordinated Notes forming part of the IDSs are deducted in the determination of cash from operating activities under GAAP. These amounts need to be added back to calculate the Distributable Cash available to fund all of the Company's cash distributions.

(12) 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 Distributable Cash 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.

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

(14) As a result of the revaluation of assets and liabilities resulting from the 2007 Offering, $0.8 million of the excess purchase price was allocated to deferred revenue as a fair market value adjustment, resulting in a subsequent non-cash charge to revenue upon recognition of the applicable revenue.

(15) As a result of the revaluation of assets and liabilities resulting from the 2007 Offering, $1.9 million of the excess purchase price was allocated to accounts payable and accrued liabilities as a fair market value adjustment, resulting in a subsequent non-cash charge to operating costs and expenses upon the culmination of the earnings process.

(16) Results for the 52-weeks ended December 30, 2007 consist of the combined results of NFI and NFL Holdings. See "Unaudited Combined Financial Information for the 52-weeks ended December 30, 2007".

(17) During 2008 Q4, New Flyer implemented a procedure (as described on page [20] of this MD&A) pursuant to which certain inter-company loans were made to support dividend payments by NFI on its common shares and in lieu of dividends to New Flyer LLC on its Class B and Class C Shares when regular dividends payable by NFL Holdings were deferred. During 2008 Q4, NFI ULC had available cash but the note indenture governing the Subordinated Notes restricted the declaration and payment of any dividends by NFL Holdings. Subsequent to the end of Fiscal 2008, NFL Holdings resumed making regular dividend payments in the ordinary course in compliance with the note indenture, including the declaration and payment of dividends on the Class A, Class B and Class C common hares that were deferred during Q4 2008, and all inter-company loans were repaid in full.

(18) Per unit calculations for Distributable Cash (C$), Cash Distributions and Excess of Distributable Cash are determined by dividing these amounts by the total of all issued and outstanding Shares including IDSs using the weighted average over the period.

Currency Impact on the Company's Reported Results

The Company's 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. Adjusted EBITDA reported on a quarterly basis is also exposed to foreign currency fluctuations as a result of the Company's current Canadian dollar net asset position, which management expects to remain through the end of 2009 as described below, however it may significantly fluctuate between reporting periods. If the Canadian dollar exchange rate remains at its current level or depreciates further, then the Company's Adjusted EBITDA (which is reported in US dollars) would be materially adversely affected as compared to the level determined with the exchange rate prevailing during the first half of 2008. However, Distributable Cash and the corresponding payout ratio are less likely to be affected by exchange rate fluctuations given that distributions on IDSs are paid in Canadian dollars and the Company has other significant Canadian dollar denominated payment requirements which are not included in Adjusted EBITDA including interest on the Term Credit Facility and Separate Subordinated Notes, current income taxes and distributions on Class B and C shares.

As at December 28, 2008, 12.4% 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 inflow during 2009.

The Company entered into a cross-currency interest rate swap with an initial notional principal amount of C$108 million at 7.13%, maturing on August 19, 2009, to manage interest rate risk relating to potentially adverse changes in the LIBOR rate on the Term Credit Facility and estimated foreign exchange risk from future operations. The fair value of the cross-currency interest rate swap at December 28, 2008 is $1.8 million (at December 30, 2007, the liability was $3.1 million) and the change in fair value has been recorded as interest expense for the reported period. The related liability is recorded on the balance sheet as a current derivative financial instruments liability.

During Fiscal 2008 the Company entered into forward contracts to buy $30.0 million Canadian dollars with United States dollars at a weighted average agreed exchange rate of $0.9933 as compared to Fiscal 2007 when the Company purchased forward contracts to buy $125.0 million Canadian dollars with United States dollars at a weighted average agreed exchange rate of $1.1394. The forward contracts should effectively avoid foreign exchange losses and produce a net zero cash impact. However due to timing of the contracts and the realized foreign exchange gains that occur from the settlement of working capital transactions during the period there will be gains or losses reported in any given reporting periods. During Fiscal 2008, the Company recorded realized foreign exchange losses relating to the settlement of the forward contracts of $1.9 million as compared to a realized loss of $6.7 million. The settlement of the forward contracts was recorded as realized foreign exchange losses in net earnings for the reported period. At December 28, 2008, there were no open forward contracts.

On February 13, 2009 the Company entered into foreign exchange options to sell C$12.0 million expiring September 15, 2009 at a strike exchange rate of $1.2700 ("cap") and foreign exchange options to sell C$12.0 million also expiring on September 15, 2009 at a strike exchange rate of $1.2176 ("floor"). These instruments create a "zero cost collar" currency strategy which insulates the Company from movements in the Canadian dollar between the cap and the floor rates up to a maximum of C$12.0 million. The Company has elected not to apply hedge accounting to its derivative financial instruments. As such, any future changes in fair value for these instruments will be recorded in the consolidated statements of operations.

Fiscal and Interim Periods

The Company's fiscal year is based on four 13-week production periods. The following table summarizes the number of weeks in the fiscal and interim periods presented for the Company:

	Period from December 31, 2007 to December 28, 2008 (Fiscal 2008)		**Period from January 1, 2007 to December 30, 2007 (Fiscal 2007)**	
	Period End Date	# of Weeks	Period End Date	# of Weeks
Quarter 1	March 30, 2008	13	April 1, 2007	13
Quarter 2	June 29, 2008	13	July 1, 2007	13
Quarter 3	September 28, 2008	13	September 30, 2007	13
Quarter 4	December 28, 2008	13	December 30, 2007	13
Fiscal year	December 28, 2008	52	December 30, 2007	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)	2008 Q4 (13-Weeks)	2007 Q4 (13-Weeks)	Fiscal 2008 (52-Weeks)	Fiscal 2007 (52-Weeks)
Bus Manufacturing Revenue	$ 198,899	$ 214,069	$ 865,290	$ 804,403
Aftermarket Revenue	22,396	21,151	96,011	82,694
Total Revenue	$ 221,295	$ 235,220	$ 961,301	$ 887,097
Earnings from operations	10,807	20,962	68,647	69,025
Earnings (loss) before interest and income taxes	61,229	(902)	144,365	(50,364)
Earnings (loss) before income taxes	50,171	(15,191)	95,560	(104,821)
Net earnings (loss) for the period	53,804	(22,291)	87,634	(130,669)

Revenue

The consolidated revenue for 2008 Q4 of $221.3 million decreased 5.9% from the consolidated revenue for 2007 Q4 of $235.2 million, and the consolidated revenue for Fiscal 2008 of $961.3 million increased 8.4% from the consolidated revenue for Fiscal 2007 of $887.1 million.

Revenue from bus manufacturing operations for 2008 Q4 was $198.9 million, a decrease of 7.1% from $214.1 million in 2007 Q4, and revenue of $865.3 million for Fiscal 2008 increased 7.6% from $804.4 million in Fiscal 2007. The 2008 Q4 decrease primarily resulted from a 4.5% decrease in deliveries in 2008 Q4 compared to 2007 Q4 as well as a decrease in average bus selling price which was attributed to changes in the product mix and the negative impact of the significant and accelerated depreciation of Canadian denominated revenue during 2008 Q4. Alternatively the increase in Fiscal 2008 revenue from bus manufacturing operations was a result of the 8.0% increase in deliveries in Fiscal 2008 compared to Fiscal 2007, with very little impact caused by foreign exchange as the exchange rate remained on average fairly stable when comparing the two fiscal years. Bus deliveries in Fiscal 2008 totaled 2,164 equivalent units compared to 2,003 equivalent units in Fiscal 2007. The major reason for the increase in deliveries was the impact of the increase in production rates required to meet the increased industry demand. Bus deliveries in 2008 Q4 of 492 equivalent units compared to 515 equivalent units in 2007 Q4 further increased 50 equivalent units from the previous quarter's work in process levels and 20 equivalent units from the previous quarter's finished goods. The main reason for the build up of year-end inventory was the engineering design issues related primarily to a specific customer and was isolated to one of the Company's three manufacturing plants. The issues delayed the completion and delivery of the related buses at year-end and deferred future deliveries until the first quarter of 2009 and to a lesser degree the second quarter of 2009. The customer specific issues have been resolved and the implementation of the plan is well under way. As well, the Company has initiated process improvement programs such as "Operational Excellence" designed to improve the company's: quality, customer satisfaction, efficiency while reducing material costs, eliminating waste, sustainability, safety and cleanliness as a necessary measure required to manage higher planned production rates.

The revenue from aftermarket operations in 2008 Q4 was $22.4 million compared to $21.1 million in 2007 Q4, which represents growth of 5.9% and $96.0 million in Fiscal 2008 compared to $82.7 million in Fiscal 2007, an increase of 16.1%. This increase highlights the continued growth of aftermarket operations as New Flyer buses continue to represent a larger share of the active installed fleet in the combined United States and Canadian market. However, the Company experienced a slower growth rate in 2008 Q4 as a result both a temporary labour strike at a major customer and more generally because of the depreciating Canadian dollar. Management believes that the aftermarket revenue will continue to experience solid growth during 2009 given revenue activity subsequent to year-end.

Cost of sales

The consolidated cost of sales for 2008 Q4 of $192.1 million decreased by 4.0% from 2007 Q4 consolidated cost of sales of $200.0 million. Fiscal 2008 consolidated cost of sales of $820.8 million increased by 9.7% from Fiscal 2007 of $748.2 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 2008 Q4 were $175.6 million compared to $185.0 million in 2007 Q4, a decrease of 5.1%. Whereas, the cost of sales from bus manufacturing operations of $752.6 million in Fiscal 2008 as compared to $689.2 million in Fiscal 2007 increased by 9.2%. The decrease in cost of sales for 2008 Q4 primarily relates to a 4.5% decline in deliveries and a mix of lower cost products that were sold in the period as compared to 2007 Q4. The increase in Fiscal 2008 is a result of higher manufacturing overhead costs on a per unit basis coupled with increased annual deliveries.

The cost of sales from aftermarket operations were $16.5 million in 2008 Q4 compared to $15.0 million in 2007 Q4, representing an increase of 9.3%, and $68.2 million in Fiscal 2008 as compared to $59.0 million in Fiscal 2007, an increase of 15.6%. This growth in expenses primarily relates to the revenue growth between periods.

Selling, general and administrative cost and other expenses

Consolidated selling, general and administrative cost and other expenses of $45.8 million in Fiscal 2008 increased by 19.3% from Fiscal 2007 of $38.4 million. This increase represents: the increased investment in new product development culminating with the launch of the next generation product Xcelsior (including marketing of this new product), expansion of the U.S. aftermarket distribution center in Kentucky, expansion of internal audit function and increased administration spending related to corporate governance matters in Fiscal 2008. The Xcelsior bus incorporates many product improvements, including reduced weight, reduced noise and improved passenger and driver experiences and has the industry's first LED headlights, the lowest step height and highest interior headroom.

Amortization

Amortization of $6.0 million has been charged to earnings in 2008 Q4 as compared with $6.1 million in 2007 Q4. The amortization charges for Fiscal 2008 of $25.2 million as compared with $23.3 million in Fiscal 2007. The increase in amortization is primarily a result of the fair value adjustments to property, plant and equipment and intangible assets resulting from the 2007 Offering.

Realized foreign exchange loss

In 2008 Q4, the Company recognized a net realized loss of $1.5 million as compared with a net realized loss of $6.6 million in 2007 Q4. Similarly, in Fiscal 2008 the Company recognized a net realized loss of $0.8 million as compared with a net realized loss of $8.1 million in Fiscal 2007. The Company enters into forward foreign exchange contracts to mitigate the impact of foreign currency fluctuations in earnings. In both 2008 Q4 and Fiscal 2008 the foreign exchange contracts were settled at a loss which was partially offset by realized gains on excess Canadian dollars generated by operations. This resulted in no material impact to its cash flow as the Company effectively hedged its foreign exchange exposure.

Earnings from operations

The consolidated earnings from operations for 2008 Q4 in the amount of $10.8 million (4.9% of revenue) decreased 48.4% compared to earnings from operations in 2007 Q4 of $21.0 million (8.9% of revenue). In Fiscal 2008 the consolidated earnings from operations were $68.6 million (7.1% of revenue), which represents a 0.5% decrease as compared to $69.0 million (7.8% of revenue) in Fiscal 2007.

The earnings from bus manufacturing operations for 2008 Q4 were $14.4 million compared to 2007 Q4 earnings of $29.3 million (7.3% and 13.7%, respectively, of bus manufacturing revenue). The decrease of 7.3% in period over period earnings from bus manufacturing operations is the result of foreign exchange, lower deliveries and lower contract margins related to product sales mix. Sales volume decreased 4.5% in 2008 Q4 as compared to 2007 Q4 as a result of decreased deliveries in 2008 Q4. The Company experienced a customer specific production issue during 2008 Q4 which resulted in delayed bus completions and deliveries creating a temporary swelling of year-end inventory levels. Both the work in process and finished goods inflated levels are expected to decrease starting in the first quarter of 2009 and continue to reduce through first half of 2009. Another contributing factor was an unfavourable sales mix with a combined lower margin percentage in the current period as compared to the mix in 2007 Q4. Profit margins between orders vary significantly due to factors such as order size and product type. As a result, earnings from bus manufacturing operations per equivalent unit can be volatile due to sales mix on a quarterly basis and therefore a longer term view should be taken when comparing bus manufacturing operations margins. In Fiscal 2008 the earnings from bus manufacturing operations were $75.0 million (8.7% of revenue), which is comparable to $83.0 million (10.3% of revenue) in Fiscal 2007. Fiscal 2007 earnings from operations were negatively impacted by $8.7 million relating to fair market adjustments for the revaluation of assets and liabilities related to the 2007 Offering

The earnings from aftermarket operations of $3.9 million (17.5% of revenue) in 2008 Q4 decreased by 10.8% compared to 2007 Q4 earnings of $4.4 million (20.7% of revenue). The decrease in 2008 Q4 aftermarket earnings is a result of sharp decline in the Canadian dollar and lower gross profit margins due to an increase in competitive pricing in this business segment. In Fiscal 2008 the earnings from aftermarket operations were $19.6 million (20.4% of revenue), which represents a 12.3% increase as compared to $17.4 million (21.1% of revenue) in Fiscal 2007.

The consolidated earnings from operations in 2008 Q4 have also been impacted by $7.5 million in unallocated losses compared with $12.7 million in 2007 Q4. Unallocated items in earnings from operations are comprised primarily of amortization and realized foreign exchange losses. The unallocated losses in Fiscal 2008 were $26.0 million as compared with an unallocated loss of $31.4 million in Fiscal 2007. The decrease in unallocated losses in both 2008 Q4 and Fiscal 2008 primarily relates to the decrease in realized foreign exchange losses in the current year.

Unrealized foreign exchange loss (gain)

Unrealized foreign currency losses arise primarily from the revaluation of the Canadian dollar-denominated long-term debt and forward foreign exchange contracts. In 2008 Q4 the Company recognized a net unrealized gain of $42.6 million compared to a net unrealized gain of $3.2 million in 2007 Q4, and during Fiscal 2008 the Company recognized a net unrealized gain of $52.0 million compared to a net unrealized loss of $26.5 million in Fiscal 2007. These results consist of the following:

(Unaudited, US dollars in thousands)	2008 Q4	2007 Q4	Fiscal 2008	Fiscal 2007
Unrealized (gain) loss on Canadian–denominated long-term debt	$ (42,785)	$ 2,671	$ (51,846)	$ 24,722
Unrealized (gain) loss on forward foreign exchanges contracts	46	(6,129)		40
Unrealized (gain) loss on other non-monetary assets/liabilities	164	220	(189)	1,722
	$ (42,575)	$ (3,238)	$ (52,035)	$ 26,484

Earnings (loss) before interest and income taxes and other items (EBIT)

In 2008 Q4 the Company recorded earnings before interest and income taxes of $61.2 million compared to a loss before interest and income taxes of $0.9 million in 2007 Q4, and earnings before interest and income taxes of $144.4 million in Fiscal 2008 compared to a loss before interest and income taxes of $50.4 million in Fiscal 2007.

Earnings (loss) before interest and income taxes have been impacted by non-cash items as follows:

(Unaudited, US dollars in thousands)	2008 Q4	2007 Q4	Fiscal 2008	Fiscal 2007
Non-cash charges (recovery):				
Fair value adjustment to other liabilities, Class B and Class C common shares	$ (7,166)	$ 24,972	$ (23,546)	$ 90,168
Fair value adjustment to embedded derivatives	(699)		(699)	2,636
Fair value adjustment to deferred revenue		(587)		(799)
Fair value adjustment to accounts payables and accrued liabilities	(60)	(553)	(1,347)	(553)
Fair value adjustment to prepaid expenses				157
Fair value adjustment to inventory				8,754
Non-cash impact of embedded derivatives	(25)		(25)	(4,006)
Unrealized foreign exchange (gain) loss	(42,575)	(3,238)	(52,035)	26,484
Gain on disposition of property, plant and equipment			(30)	(270)
Amortization	6,045	6,111	25,173	23,312
Total non-cash charges:	$ (44,480)	$ 26,705	$ (52,509)	$ 145,883

One of the most significant non-cash charge/recovery is the unrealized foreign exchange gain or loss on the Canadian–denominated long-term debt. The other significant non-cash charge is the fair value adjustment to other liabilities, Class B and Class C Shares. As the market price for the IDS unit increases so does the fair value of the liability relating to the Class B and Class C Shares. The fair value adjustment is recorded against the current period earnings. Conversely, earnings will increase in the periods in which the IDS unit price reports a decline in market value.

Absent these non-cash charges/recoveries, 2008 Q4 EBIT would have been $16.7 million compared to $25.8 million in 2007 Q4, and $91.9 million in Fiscal 2008 compared to $95.5 million in Fiscal 2007.

Interest expense (including distributions on Class B and C Shares)

The interest expense for 2008 Q4 totaled $11.1 million compared to $14.3 million in 2007 Q4, and $48.8 million in Fiscal 2008 as compared to $54.5 million in Fiscal 2007. Interest expense for Fiscal 2008 has decreased by $5.7 million primarily due to the following offsetting factors: the interest on the Subordinated Notes increased by $10.7 million due to the issuance of additional Subordinated Notes pursuant to the Follow-on Offerings, while the aggregate distributions related to the Class B and Class C Shares decreased by $12.2 million because of the purchase for cancellation of Class B and Class C Shares using the proceeds of the Follow-on Offerings and deferral of 2008 Q4 Class B Shares and Class C Shares, the decrease in non-cash fair market value adjustment on the cross-currency interest rate swap of $5.0 million and the increase in other interest and bank charge of $1.0 million.

Earnings (loss) before income taxes (EBT)

Earnings before income taxes for 2008 Q4 was $50.2 million compared to loss before income taxes of $15.2 million in 2007 Q4 and EBT for Fiscal 2008 was $95.6 million compared to the loss before income taxes of $104.8 million in Fiscal 2007. The increase in earnings between these periods results from the non-cash charges (recovery) as described in the preceding table.

Income taxes

The income tax recovered for 2008 Q4 was $3.6 million which decreased $10.7 million compared to an income tax expense of $7.1 million in 2007 Q4. The reason the income taxes decreased when earnings before income taxes increased by $65.4 million was due primarily related to the current income tax savings caused by the reduction in Canadian earnings in 2008 Q4 as a result of the increased interest expense caused by the 2008 Follow-on Offerings. The 2008 Q4 positive impact of the subsidiaries' foreign branch operations also contributed to the decrease in income tax expense for Fiscal 2008 of $7.9 million in comparison to an income tax expense of $25.8 million in Fiscal 2007.

Current income taxes are comprised of Canadian federal and provincial corporate income taxes, withholding taxes and U.S. state taxes. Whereas, future income taxes are primarily comprised of U.S. federal income taxes derived as a reduction of the future income tax asset related to the utilization of the FTC pool. As a result current income taxes fluctuate depending on the proportion of income generated in Canada and the U.S. and the amount of non-taxable inter-company profit elimination that is recorded in a quarter, both of which are dependent on a number of factors.

Net earnings (loss)

The Company reported net earnings of $53.8 million in 2008 Q4 and a net loss of $22.3 million in 2007 Q4. The increase in net earnings in 2008 Q4 is primarily attributable to the change in non-cash charges (recoveries) to earnings as noted above.

Similarly, Fiscal 2008 net earnings of $87.6 million compares to Fiscal 2007 net loss of $130.7 million. With Fiscal 2008 earnings from operations remaining relatively unchanged from Fiscal 2007, the increase resulted from decreased interest costs (including distributions on Class B and Class C Shares), increased non-cash recoveries to earnings as noted above and decreased income tax provision.

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, future 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.

In the normal course of business, the Company provides post-retirement pension benefits to its employees under both defined contribution and defined benefit pension plan arrangements. The determination of the accrued benefit liability for the pension plan uses the accumulated benefit method, a market discount rate at the period end date, and management's best estimate of the expected long-term rate of return on plan assets. The assets of the defined benefit plans are invested primarily in foreign and domestic fixed income and equity securities, which are subject to fluctuations in market prices. In addition, the discount rates used to perform the actuarial calculation of the plan liabilities are also based on long-term market interest rates. There can be no guarantee that fluctuations in these market prices and rates will not impact pension expense and funding requirements. However, based on the relatively small size of the Company's current defined benefit plan deficit of $2.2 million it is believed that these factors will not have a material adverse affect on the Company. The Company is planning on contributing an additional $1.5 million next year to satisfy the long-term funding requirements, with almost no impact to the pension expense for 2009.

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. During Fiscal 2008, the Company increased its cash balances by $5.4 million which resulted in a December 28, 2008 balance of $30.7 million as compared to $25.3 million at December 30, 2007. As at December 28, 2008, there were no direct borrowings under the secured revolving credit facility.

The Company's current liquidity requirements have been met with a revolving credit facility and on-hand cash balances. The Company generated an excess of Distributable Cash of C$14.0 million during Fiscal 2008 compared to an excess of C$15.2 million in Distributable Cash for Fiscal 2007. The decrease in Excess Distributable Cash of C$1.2 million is primarily the result of lower Adjusted EBITDA and increased cash distributions in Fiscal 2008 as compared to Fiscal 2007 as a result of the Company increasing distributions first in April 2007 and then again in July 2007. The Company has achieved a cumulative excess of Distributable Cash since August 19, 2005 of C$35.2 million.

The Company is pleased to announce that it has secured commitments from a syndicate of existing lenders and one new lender in excess of US$180.0 million to refinance New Flyer's existing US$180.0 million senior credit facility maturing in August 2009. The new senior credit facility is expected to be for a three-year term and comprised of a US$90.0 million term loan, a US$50.0 million revolver and a US$40.0 million letter of credit facility. The parties are currently in the process of settling the definitive documentation with respect to new credit facility and management expects the new facility to be on similar terms to the current senior credit agreement. Management expects that the revised credit agreement will be finalized during the second quarter of 2009.

Weakening global economic conditions have recently led to a significant weakness in exchange traded commodity prices, including nickel prices which directly impact the cost of stainless steel. New Flyer continues to pass through the market pricing to customers subject to a slight timing lag. This policy mitigates the risk during commodity price increases

Management currently believes that based on its financial position and liquidity profile at December 28, 2008, the Company will be able to satisfy its current and long-term obligations.

On June 26, 2008 the Company amended the Credit Facility to relax the restrictions on NFI ULC and certain of its affiliates relating to the payment of dividends. As before, dividends may only be paid from accumulated excess cash flow (as determined in accordance with the Credit Facility); however, fluctuations in working capital will no longer be included in determining excess cash flow. Additionally, dividends may now be paid based on excess cash flow generated during the prior four fiscal quarters. The inclusion of working capital fluctuations in the determination of the pre-existing dividend restrictions under the Credit Facility resulted in certain breaches of such restrictions during 2006 and 2007. In connection with the amendment, New Flyer's senior lenders waived the past breaches. The fees related to this amendment have been capitalized and will be expensed over the remaining term of the Term Credit Facility. Similar breaches also occurred under the note indenture governing the Subordinated Notes. NFI ULC has rectified those breaches and has established a procedure to better align the ability to fund dividends on NFI's common shares under the provisions of the note indenture with the ability to do so under the amended Credit Facility. That procedure permits NFI ULC to make loans to NFI to support NFI dividend payments on the common shares during periods where NFI ULC has available cash and the note indenture provisions would restrict dividends paid by NFL Holdings to NFI. New Flyer implemented this procedure during 2008 Q4 and the related loans have subsequently been repaid in full.

As at December 28, 2008, the Company is in compliance with the financial covenants in its Credit Facility. The results of the financial covenants tests as of such date are as follows:

	December 28, 2008	December 30, 2007
Senior Leverage Ratio (must be less than 2.25)	1.04	0.99
Total Leverage Ratio (must be less than 5.75) (a)	3.80	3.07
Fixed Charge Coverage Ratio (must be greater than 1.10)	1.56	2.72

(a) The Total Leverage Ratio covenant limit reduced from 6.00 on December 31, 2007 per August 2005 credit agreement.

Credit risk

Financial instruments which potentially subject the Company to credit risk and concentrations of credit risk consist principally of cash, accounts receivable and derivatives. Management has assessed that the credit risk associated with accounts receivable is mitigated by the significant proportion for which the counterparties are well established transit authorities. Additionally, the U.S. federal government funds a substantial portion of U.S. customer payments, as 80% of the capital cost of new buses typically come from the U.S. Federal Transportation Administration, while the remaining 20% comes from state and municipal sources. The maximum exposure to the risk of credit for accounts receivables corresponds to their book value. Historically, the Company has experienced nominal bad debts as a result of the customer base being principally comprised of municipal and other local transit authorities, however during Fiscal 2008, the Company recorded a bad debt expense of $0.8 million (Fiscal 2007 - $Nil).

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

The following table details the aging of the Company's receivables and related allowance for doubtful accounts at December 28, 2008:

(US dollars in thousands)		
Current, including holdbacks	$	85,267
Past due amounts but not impaired		
1 – 60 days		9,972
Greater than 60 days		4,146
Less: Allowance for doubtful accounts		(75)
Total accounts receivables, net	$	99,310

As at December 28, 2008, there was no amount that would otherwise be past due or impaired whose terms have been renegotiated.

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

Commitments and Contractual Obligations

Commitments

New Flyer's longer term commitments and contractual guarantees, as at December 28, 2008:

(US dollars in thousands)	Total	2009	2010	2011	2012	2013	Post 2013
Senior term loan	$ 90,000	$ 90,000	$	$	$	$	$
Subordinated Notes included in IDS issue	216,421						216,421
Separate Subordinated Notes	35,734						35,734
Capital leases	6,205	1,642	1,527	1,254	920	547	315
Operating leases	32,659	2,958	2,051	1,972	1,997	1,879	21,802
	$ 381,019	$ 94,600	$ 3,578	$ 3,226	$ 2,917	$ 2,426	$ 274,272

As at December 28, 2008, outstanding surety bonds guaranteed by the Company amounted to $20.2 million, which has decreased from $39.5 million at December 30, 2007. 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 facility of $50.0 million. As at December 28, 2008, letters of credit amounting to $19.6 million remain outstanding under the letter of credit facility as security for the following contractual obligations of the Company:

(US dollars in thousands)	
Collateral to secure operating facility leases	$ 261
Collateral to secure surety facilities	3,599
Customer performance guarantees	15,214
Collateral in support of self-insured workers' compensation obligations	480

Related Party Transactions

As described on page [20] of this MD&A, during 2008 Q4, certain inter-company loans were made by NFI ULC to NFI to support dividend payments by NFI on its common shares and by NFI to New Flyer LLC in lieu of dividends to New Flyer LLC on its Class B and Class C Shares. During 2008 Q4, an aggregate of: (i) C$5,073,588.36 was loaned by NFI ULC to NFI, bearing interest at a rate of 15.25% per annum, calculated monthly not in advance on the 15th day of each month and payable on demand and (ii) C$390,676.62 was loaned by NFI to New Flyer LLC, bearing interest at a rate of 15.5% per annum, calculated monthly not in advance on the 15th day of each month and payable on demand. All inter-company loans were repaid in full subsequent to the end of Fiscal 2008.

Long Term Incentive Plan ("LTIP") and Performance Unit Plan ("PUP")

The cumulative charges under both the LTIP and the PUP totaled $0.9 million and $4.4 million for 2008 Q4 and Fiscal 2008, respectively, as compared to $0.6 million and $4.6 million recorded in 2007 Q4 and Fiscal 2007, respectively.

The Company has recorded a LTIP expense of $0.7 million and $3.1 million for 2008 Q4 and Fiscal 2008, respectively, as compared to $0.6 million and $4.6 million recorded in 2007 Q4 and Fiscal 2007, respectively.

Effective January 1, 2008, the PUP was implemented for eligible officers and management employees and will be phased in to replace the existing LTIP in 2010. The LTIP will continue in place through 2009 for certain senior management who were participants of the LTIP on December 31, 2007. The purpose of the PUP is to attract, motivate and reward officers and senior managers of the Company by making a significant portion of their long-term incentive compensation dependent on the Company's financial performance. Awards are made in the form of phantom Performance Units ("PUs"), which generally vest at the end of a three year period, and will be settled in cash. Compensation expense is recognized on a straight-line basis over the three year period, adjusted to reflect an average trading unit price and Company's performance at each balance sheet date, based on the best available estimates of the outcome of the performance conditions. The Company's obligation under the PUP is recorded as a long-term liability. The Company recorded a PUP expense of $0.2 million and $1.3 million for 2008 Q4 and Fiscal 2008, respectively.

Cash Flow

The cash flows of the Company are summarized as follows:

(Unaudited, US dollars in thousands)	2008 Q4	2007 Q4	Fiscal 2008	Fiscal 2007
Cash from operating activities before changes in non-cash working capital items	$ 6,616	$ 4,929	$ 32,422	$ 15,361
Changes in non-cash working capital items	29,572	20,983	(4,599)	18,016
Cash flow from operating activities	36,188	25,912	27,823	33,377
Cash flow from financing activities	(4,571)	(3,238)	(15,274)	(11,488)
Cash flow from investing activities	(1,514)	(1,061)	(6,788)	(2,501)

Cash flows from operating activities

The 2008 Q4 net operating cash outflow of $36.2 million is the result of $6.6 million of net cash earnings and a decrease of $29.6 million in working capital. The decrease in working capital for 2008 Q4 is primarily a result of a decrease in accounts receivables of $38.7 million, an increase in deferred revenue of $30.7 million offset by an increase in inventory of $40.8 million that occurred at the end of 2008 Q4. The Fiscal 2008 net cash operating inflow of $27.8 million is the result of $32.4 million of net cash earnings offset with an increase of $4.6 million in working capital compared to net cash operating inflow in Fiscal 2007 of $33.4 million. Cash generated from operating activities in Fiscal 2008 of $32.4 million increased by $17.0 million from $15.4 million in Fiscal 2007, which is primarily a result of increased EBITDA of $5.2 million, reduced income taxes of $17.9 million less increased interest expense including distributions on Class B and Class C Shares of $5.7 million year over year. The increase in working capital for Fiscal 2008 is primarily a result of the increased investment in inventory levels that occurred at the end of 2008 Q4, partially offset by the decrease in accounts receivables and increase in accounts payables and accruals. The Company experienced a customer specific production issue during 2008 Q4 which resulted in delayed bus completions and deliveries creating a temporary swelling of year-end inventory levels. Both the work in process and finished goods experienced inflated levels that are expected to decrease starting in second quarter of 2009 and continue to reduce throughout the second half of 2009.

Cash flow from financing activities

The Company's financing activities resulted in a net cash outflow of $4.6 million and $3.2 million for 2008 Q4 and 2007 Q4, respectively. The increase is primarily a result of increased dividends paid of $1.0 million due to the issuance of 17.9 million common shares issued as part of the 2008 Follow-on Offerings. The Follow-on Offerings actually create a comparable shift of cash required to pay dividends from an operating activity to a financing activity because the distributions on Class B and Class C common shares are recorded as interest expense which contributes to improved operating cash flow.

Similarly, the Company's financing activities for Fiscal 2008 resulted in a net cash outflow of $15.3 million as compared to a cash outflow of $11.5 million in Fiscal 2007. The increased outflow primarily relates to increased dividends paid of $5.7 million resulting from the new shares issued pursuant to the Follow-on Offerings, increase of $0.6 million of capital lease repayments in Fiscal 2008 when compared to Fiscal 2007, while the Follow-on 2008 Offerings were cash neutral, the 2007 Offering used $2.3 million of cash.

Cash flow from investing activities

2008 Q4 investing activities resulted in a net cash outflow of $1.5 million compared to $1.1 million in 2007 Q4, and a net cash outflow of $6.8 million in Fiscal 2008 compared to $2.5 million in Fiscal 2007. A significant portion of the growth capital expenditures increase in Fiscal 2008 relates to the Winnipeg facility expansion. The cash flows related to capital expenditures in Fiscal 2007 were offset by proceeds of $0.3 million received from the sale of a demonstrator bus.

The composition of the capital expenditures was as follows:

(Unaudited, US dollars in thousands)	2008 Q4	2007 Q4	Fiscal 2008	Fiscal 2007
Capital expenditures	$ 2,057	$ 2,276	$ 8,414	6,027
Less capital expenditures funded by capital leases	(543)	(1,215)	(1,596)	(3,174)
Cash capital expenditure	1,514	1,061	6,818	2,853
Comprised of:				
Maintenance capital expenditures	1,260	993	2,552	1,902
Growth capital expenditures	254	68	4,266	951
	1,514	1,061	6,818	2,853

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.

Goodwill and intangible assets, Handbook Section 3064

In February 2008, the CICA issued Section 3064, "Goodwill and intangible assets", replacing Section 3062, "Goodwill and other intangible assets" and Section 3450, "Research and development costs". The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company plans to adopt this standard for its 2009 fiscal year and is currently evaluating the impact of adopting this standard.

International Financial Reporting Standards ("IFRS")

In January 2006, the CICA Accounting Standards Board (AcSB) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards for public companies would be required to converge with IFRS for fiscal years beginning on or after January 1, 2011 with comparative figures presented on the same basis. In February 2008, the CICA ASB confirmed the effective date of the initial adoption of IFRS.

The Company formally commenced its IFRS conversion project in the third quarter of 2008 and has engaged the services of an external advisor with IFRS expertise to work with management. Regular reporting is provided to the Company's senior management and Audit Committee of the Board of Directors. The Company's conversion project consists of three phases: diagnostic assessment, design and development, and implementation. To date, the initial diagnostic assessment phase of the plan has been completed and a high level IFRS implementation plan has been developed with a more detailed plan to be finalized by the end of Fiscal 2008. A high level review of the major differences between Canadian GAAP and current IFRS has been undertaken and at this time, the Company cannot reasonably estimate the impact of adopting IFRS on the consolidated financial statements. The Company will continue to invest in training and external advisor resources throughout the transition to facilitate a timely conversion.

Business Combinations, Handbook Section 1582

CICA Section 1582, Business Combinations, which replaces CICA Section 1581, Business Combinations, establishes standards for the accounting for a business combination. It is the Canadian equivalent to International Financial Reporting Standard IFRS 3, Business Combinations. The standard applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier applications permitted.. The Company has not yet determined the impact of the adoption of this change on its Consolidated Financial Statements.

Consolidated Financial Statements and Non-Controlling Interests, Handbook Section 1601 and 1602

CICA Section 1601, Consolidated Financial Statements and Section 1602, Non-controlling Interests replace CICA Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, Consolidated and Separate Financial Statements. These standards are effective on or after the beginning of the first annual reporting period on or after January 2011 with earlier application permitted. The Company has not yet determined the impact of the adoption of these changes on its Consolidated Financial Statements.

Controls and Procedures

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. Based on management's evaluation of the design and effectiveness of the Company's disclosure controls and procedures, the Company's Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are designed and operating effectively as of December 28, 2008 to provide reasonable assurance that the information being disclosed is recorded, summarized and reported as required.

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining adequate 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 CEO and the 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 evaluated the design of the Company's ICFR as of December 28, 2008 in accordance with the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and identified that two pre-existing internal control weaknesses relating to accounting for income taxes and spreadsheet controls continue to exist. Management is continuing to explore additional internal control procedures to address these two areas of weakness. The relatively complex structure of the Issuer and its subsidiaries requires management, with the assistance of external consultants and accounting advisors, to evaluate non-routine and complex tax and accounting issues on a regular basis. Despite the assistance of external advisors, however, tax and accounting errors have been identified in prior years and have resulted in restatements of the Issuer's financial statements. Except for the internal control weaknesses described above, based on management's design and testing of the effectiveness of the Company's ICFR, the Company's Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are designed and operating effectively as of December 28, 2008 to provide reasonable assurance that the financial information being reported is materially accurate. During 2008 Q4, there have been no changes in the design of the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, its ICFR.

Internal control systems, no matter how well designed, have inherent limitations and therefore can only provide reasonable assurance as to the effectiveness of ICFR, including the possibility of human error and the circumvention or overriding of the controls and procedures.

Unaudited Combined Financial Information for the 52-weeks ended December 30, 2007

Combined Statement of Operations

The combined statement of operations for the 52-week period ended December 30, 2007 has been prepared from NFI's consolidated statement of operations for the 52-week period ended December 30, 2007 and from NFL Holdings unaudited consolidated statement of operations for the 28-week period ended July 11, 2007.

(Unaudited, US dollars in thousands)	**NFI** 52 –Weeks Ended December 30, 2007	**NFL Holdings** 28-Weeks Ended July 11, 2007	Elimination of Equity Accounting	**NFI Combined** 52-Weeks Ended December 30, 2007
Revenue	$ 421,064	$ 466,033	$	$ 887,097
Operating costs and expenses	373,247	413,404		786,651
Amortization	11,425	11,887		23,312
Foreign exchange loss	6,844	1,265		8,109
Earnings from operations	29,548	39,477		69,025
Loss from equity accounted investment	(82,099)		82,099	
Unrealized foreign exchange loss on non-current monetary items and forward foreign exchange contracts	10,540	15,944		26,484
Fair value adjustment to other liabilities, Class B and Class C common shares	28,785	61,383		90,168
Gain on disposition of property, plant and equipment		(270)		(270)
Follow-on Offering related costs	371			371
Fair value adjustment to embedded derivatives		2,636		2,636
Loss before interest and income taxes	(92,247)	(40,216)	82,099	(50,364)
Interest expense				
Interest on long-term debt	16,492	12,913		29,405
Accretion of long term debt		436		436
Other interest and bank charges (recovered)	(250)	213		(37)
Fair market value adjustment on interest rate swap	2,731	909		3,640
	18,973	14,471		33,444
Distributions on Class B and C common shares	8,724	12,289		21,013
	27,697	26,760		54,457
Loss before income taxes	(119,944)	(66,976)	82,099	(104,821)
Income Taxes				
Current income taxes	11,070	8,972		20,042
Future income tax expense (recovered)	(345)	6,151		5,806
	10,725	15,123		25,848
Net loss	$ (130,669)	(82,099)	$ 82,099	$ (130,669)

Combined Statement of Cash Flows

The combined statement of cash flows for the 52-week period ended December 30, 2007 has been prepared from NFI's consolidated statement of cash flows for the 52-week period ended December 30, 2007 and from NFL Holdings unaudited consolidated statement of cash flows for the 28-week period ended July 11, 2007.

(Unaudited, US dollars in thousands)	**NFI** 52 –Weeks Ended December 30, 2007	**NFL Holdings** 28-Weeks Ended July 11, 2007	Elimination of Equity Accounting	**NFI Combined** 52-Weeks Ended December 30, 2007
Operating activities				
Net loss	$ (130,669)	$ (82,099)	$ 82,099	$ (130,669)
Loss from equity accounted investment	82,099		(82,099)	
Items not affecting cash	53,862	94,481		148,343
Defined benefit funding	(1,236)	(1,078)		(2,314)
	4,056	11,304		15,360
Changes in non-cash working capital items	(7,510)	28,558	(3,031)	18,017
Operating cash flow	(3,454)	39,862	(3,031)	33,377
Financing activities	(11,084)	(3,435)	3,031	(11,488)
Investing activities	39,375	(1,113)	(40,763)	(2,501)
Effect of foreign exchange rate on cash	314	1,408		1,722
Net cash inflow (outflow)	$ 25,151	$ 36,722	$ (40,763)	$ 21,110

Consolidated Financial Statements of

NEW FLYER INDUSTRIES INC.

December 28, 2008

TABLE OF CONTENTS

Deloitte.

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

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

AUDITORS' REPORT

To the Shareholders
New Flyer Industries Inc.

We have audited the consolidated balance sheets of New Flyer Industries Inc. as at December 28, 2008 and December 30, 2007 and the consolidated statements of operations, comprehensive income (loss) and deficit and cash flows for the 52-week periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 28, 2008 and December 30, 2007 and the results of its operations and its cash flows for the 52-week periods then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Winnipeg, Manitoba
March 18, 2009

NEW FLYER INDUSTRIES INC.

CONSOLIDATED BALANCE SHEETS

As at December 28, 2008 and December 30, 2007
(in thousands of U.S. dollars)

	December 28, 2008	December 30, 2007
Assets		
Current		
Cash	$ 30,721	$ 25,293
Accounts receivable (note 3)	99,310	115,607
Inventories (note 4)	145,794	112,705
Prepaid expenses and deposits	8,836	10,684
Embedded derivative instrument (note 2 o)	749	
Due from related party (note 17)	218	
Future income tax assets (note 12)	13,173	15,425
	298,801	279,714
Property, plant and equipment (note 5)	34,130	35,602
Intangible assets (note 6)	389,274	404,846
Future income tax assets (note 12)	9,618	19,566
Goodwill (note 1)	167,521	167,521
	$ 899,344	$ 907,249
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 167,678	$ 150,842
Deferred revenue	48,324	55,174
Provision for warranty costs	27,014	28,524
Current portion of derivative financial instruments (note 13c)	1,849	
Current portion of obligations under capital lease (note 7)	1,339	1,203
Current portion of long-term debt (note 8)	89,681	
	335,885	235,743
Accrued benefit liability (note 15)	3,094	4,840
Obligations under capital lease (note 7)	4,120	4,328
Performance unit plan liability (note 16)	1,092	
Future income tax liabilities (note 12)	140,956	154,310
Long-term debt (note 8)	250,501	289,834
Derivative financial instruments (note 13c)		3,148
Other liabilities, Class B and Class C common shares (note 9)	16,051	238,289
	751,699	930,492
Commitments and contingencies (note 18)		
Shareholders' (deficiency) equity		
Share capital (note 10)	217,469	120,291
Deficit	(69,824)	(143,534)
	147,645	(23,243)
	$ 899,344	$ 907,249

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

APPROVED ON BEHALF OF THE BOARD:

"Hon. Brian V. Tobin", Director
"John S. Marinucci", Director

NEW FLYER INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME (LOSS) AND DEFICIT

52 weeks ended December 28, 2008 and December 30, 2007
(in thousands of U.S. dollars except per share figures)

	Fiscal 2008	Fiscal 2007 (note 1b)
Revenue	$ 961,301	$ 421,064
Cost of sales (excluding amortization)	820,849	354,414
Sales, general administration costs and other operating expenses	45,844	18,833
Amortization	25,173	11,425
Foreign exchange loss	788	6,844
Earnings from operations	68,647	29,548
Loss from equity accounted investment		82,099
Unrealized foreign exchange (gain) loss on non-current monetary items and forward foreign exchange contracts	(52,035)	10,540
Follow-on offering related costs (notes 1a, 1b)	592	371
Gain on disposition of property, plant and equipment	(30)	
Fair value adjustment to embedded derivative	(699)	
Fair value adjustment to other liabilities, Class B and C common shares (note 9)	(23,546)	28,785
Earnings (loss) before interest and income taxes	144,365	(92,247)
Interest expense		
Interest on long-term debt	40,101	16,492
Accretion in carrying value of long-term debt	271	
Other interest and bank charges (recovered)	996	(250)
Fair market value adjustment on cross-currency interest rate swap	(1,339)	2,731
	40,029	18,973
Distributions on Class B and Class C common shares (note 9)	8,776	8,724
	48,805	27,697
Earnings (loss) before income tax expense	95,560	(119,944)
Income tax expense (note 12)		
Current income taxes	10,279	11,070
Future income taxes recovered	(2,353)	(345)
	7,926	10,725
Net earnings (loss) and comprehensive income (loss) for the period	87,634	(130,669)
Deficit beginning of period	(143,534)	(2,018)
Net earnings (loss) for the period	87,634	(130,669)
Transitional adjustment on adoption of new accounting policies (notes 2t, 2 o)	390	(2,016)
Dividends declared	(14,314)	(8,831)
Deficit end of period	$ (69,824)	$ (143,534)
Net earnings (loss) per share (basic and diluted) (note 10)	$ 2.27	$ (5.35)

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

NEW FLYER INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

52 weeks ended December 28, 2008 and December 30, 2007
(unaudited, in thousands of U.S. dollars)

	Fiscal 2008	Fiscal 2007 (note 1 b)
Cash provided by (used in)		
Operating activities		
Net earnings (loss) for the period	$ 87,634	$ (130,669)
Amortization of plant and equipment	9,601	3,671
Amortization of intangible assets	15,572	7,754
Loss from equity accounted investment		82,099
Gain on disposition of property, plant and equipment	(30)	
Future income taxes recovered	(2,353)	(345)
Unrealized (gain) loss on cross-currency interest rate swap	(1,339)	2,731
Unrealized foreign exchange (gain) loss on non-current monetary items and forward foreign exchange contracts	(52,035)	10,540
Accretion in carrying value of long-term debt	271	
Foreign exchange loss (gain) on cash held in foreign currency	333	(314)
Non cash impact of embedded derivative	(25)	
Fair value adjustment to embedded derivative	(699)	
Fair value adjustment to other liabilities, Class B and C common shares	(23,546)	28,785
Defined benefit expense (note 15)	1,583	1,040
Defined benefit funding (note 15)	(2,545)	(1,236)
Cash from operating activities before changes in non-cash working capital items	32,422	4,056
Changes in non-cash working capital items (note 11)	(4,599)	(7,510)
	27,823	(3,454)
Financing activities		
Repayment of obligations under capital lease	(1,427)	(464)
Share issuance	99,033	55,096
Costs associated with share issuance	(1,855)	(1,125)
Proceeds from issue of long-term debt	104,404	49,381
Costs associated with debt issuance	(2,506)	(1,188)
Repayment of other liabilities, Class B and C common shares	(198,692)	(104,476)
Due from related party	(218)	
Dividends paid	(14,013)	(8,308)
	(15,274)	(11,084)
Investing activities		
Cash provided from consolidation of New Flyer Holdings, Inc.		40,763
Proceeds from disposition of property, plant and equipment	30	
Acquisition of property, plant and equipment	(6,818)	(1,388)
	(6,788)	39,375
Effect of foreign exchange rate on cash	(333)	314
Increase in cash	5,428	25,151
Cash beginning of period	25,293	142
Cash end of period	$ 30,721	$ 25,293

Supplemental cash flow information (note 11)

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

NEW FLYER INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 28, 2008 and December 30, 2007
(in thousands of U.S. dollars except per share figures)

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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

The consolidated financial statements are those of NFI together with its subsidiaries, New Flyer Holdings, Inc. ("NFL Holdings"), Transit Holdings, Inc. ("THI"), New Flyer of America Inc. ("NFAI"), New Flyer Industries Canada ULC ("NFI ULC") and 1176846 Alberta ULC ("AB ULC").

(a) 2008 transactions

On September 3, 2008, the Company together with NFI ULC issued 9,143,100 Income Deposit Securities ("IDS"), sold at a price of C$11.20 per IDS for gross proceeds of C$102,403, and on April 10, 2008, the Company together with NFI ULC issued 8,770,000 Income Deposit Securities, sold at a price of C$11.40 per IDS for gross proceeds of C$99,978. Each IDS consists of one common share of the Company and C$5.53 principal amount of subordinated notes of NFI ULC ("Subordinated Notes"). As part of these two transactions the Company issued 17,913,100 new common shares and NFI ULC issued an aggregate principal amount of C$99,059 of new Subordinated Notes to constitute such IDSs. In connection with the IDS offerings, NFI ULC also concurrently sold, on a private placement basis, an aggregate principal amount of C$9,910 of subordinated notes not forming part of an IDS ("Separate Subordinated Notes"). The Separate Subordinated Notes are identical in all respects to the Subordinated Notes represented by IDSs, and were issued pursuant to the same indenture.

The Company used the net proceeds of the common share component of the IDS offerings to purchase 17,913,100 Class A common shares of NFL Holdings ("Class A Shares"). NFL Holdings used the proceeds from the issuance of the additional Class A Shares, together with proceeds received from NFI ULC's issuance of the Subordinated Notes (including in the April 2008 IDS offering, proceeds from the issuance of the Separate Subordinated Notes) following the deduction of certain transaction costs, to purchase for cancellation 2,098,654 Class B common shares of NFL Holdings ("Class B Shares") and 19,041,721 Class C common shares of NFL Holdings ("Class C Shares"), being the remaining Class B Shares and Class C Shares held by New Flyer Transit, L.P. After giving effect to these transactions, the Company increased its ownership of NFL Holdings from 55.3% to an approximate 95.0% economic and voting interest of NFL Holdings, while management through New Flyer LLC maintained its ownership in NFL Holdings at an approximate 5.0% economic and voting interest. The proceeds of C$5,060 from the September 3, 2008 issuance of the Separate Subordinated Notes were used for general corporate purposes, whereas the proceeds of C$4,850 from the April 10, 2008 issuance of the Separate Subordinated Notes were ultimately used in the redemption of Class C Shares as part of the April 2008 Offering. Follow-on offering related costs of $592 were reported in the consolidated statement of operations.

(b) 2007 transaction

On July 12, 2007, the Company together with NFI ULC issued 9,410,000 IDSs, sold at a price of C$11.70 per IDS for gross proceeds of C$110,097. The Company issued 9,410,000 new common shares and NFI ULC issued an aggregate principal amount of C$52,037 of new Subordinated Notes to constitute such IDSs.

The Company used the net proceeds of the common share component of the IDS issuance to purchase 9,410,000 Class A Shares. NFL Holdings used the net proceeds of the issuance of IDSs (following the deduction of certain transaction costs) to purchase for cancellation 10,490,293 Class C Shares.

As a result of the July 12, 2007 transaction (the "reconsideration event"), management determined that the Company was deemed to be the primary beneficiary of NFL Holdings, in accordance with CICA Accounting Guideline-15, and as such the Company began, effective July 12, 2007, to consolidate assets, liabilities and the results of operations of its subsidiaries. As a result of the change from the equity method of accounting for the Company's interest in NFL Holdings to consolidation, some of the prior period figures are not comparable to the current period. The NFL Holdings financial information for the period January 1, 2007 to July 11, 2007 has been recorded using the equity method of accounting. Follow-on offering related costs of $371 were reported in the consolidated statement of operations.

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

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION (Continued)

The Company has completed the allocation process and has consolidated the assets and liabilities of NFL Holdings based on management's best estimates of the fair values as follows:

	Fair Value at July 12, 2007
Assets	
Cash	$ 41,503
Accounts receivable	74,380
Inventories	116,491
Prepaid expenses and deposits	11,722
Future income tax assets	38,611
Property, plant and equipment	35,412
Intangible assets	412,600
Goodwill	167,521
	898,240
Liabilities	
Accounts payable and accrued liabilities	140,112
Deferred revenue	46,169
Provision for warranty costs	25,470
Due to parent company	445
Derivative financial instrument	3,232
Accrued benefit liability	5,047
Obligations under capital lease	3,473
Future income tax liabilities	159,157
Long-term debt	275,934
Derivative financial instruments	417
Other liabilities – Class B and C common shares	209,504
	868,960
Net assets	$ 29,280
Consideration paid in cash	52,341
Previously reported amount of equity interest	(23,061)
Net investment	$ 29,280

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements of NFI are prepared on a going concern basis in accordance with generally accepted accounting principles in Canada and are presented in U.S. dollars except where otherwise stated, representing the functional currency of the Company.

Uncertainties and risks

As disclosed in note 22, the Company has received financing commitments to extend its Senior Credit Facility of $180,000 which matures August 2009 (note 8). The Company expects to finalize the revised credit agreement which will result in extending the maturity by three years from closing date.

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following is a summary of significant accounting policies of the Company:

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries as disclosed in note 1. All significant intercompany transactions and accounts have been eliminated.

(b) Fiscal periods

The Company's 2008 fiscal period is based on four 13-week quarters as follows:

	Period from December 31, 2007 to December 28, 2008 (Fiscal 2008)		**Period from January 1, 2007 to December 30, 2007 (Fiscal 2007)**	
	Period End Date	# of Weeks	Period End Date	# of Weeks
Quarter 1	March 30, 2008	13	April 1, 2007	13
Quarter 2	June 29, 2008	13	July 1, 2007	13
Quarter 3	September 28, 2008	13	September 30, 2007	13
Quarter 4	December 28, 2008	13	December 30, 2007	13
Fiscal year	December 28, 2008	52	December 30, 2007	52

(c) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts at the date of, and for the period of, the financial statements. Actual results could differ from those estimates. Estimates are reviewed on a regular basis and, as adjustments become necessary, they are reported in income in the periods in which they become known. The assets and liabilities which require management to make significant estimates and assumptions in determining carrying values include inventories, property, plant and equipment, intangible assets, goodwill, provision for warranty costs, accrued benefit liability, performance unit plan liability and future income taxes.

(d) Revenue recognition

The Company recognizes revenue when: 1) persuasive evidence of an agreement exists; 2) goods are delivered to the customer site; 3) the sales price is fixed or determinable; and 4) collection of the resulting receivable is reasonably assured.

Proceeds received from customers prior to the revenue recognition criteria being satisfied are deferred on the consolidated balance sheet as deferred revenue.

Where contracts include multiple deliverable elements and clear evidence of the fair value of each element exists, revenues associated with arrangements with multiple deliverable elements are divided into separate units of accounting if the deliverables meet the criteria of "Units of Accounting" as defined in the CICA EIC 142 "Revenue Arrangements with Multiple Deliverables." The arrangement's consideration is allocated among the units of accounting based on their relative fair values and recognized individually based on the applicable revenue recognition criteria for each separately identified unit.

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Cash

Cash includes cash deposited at banks.

(f) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis. Finished goods and work in process include the cost of materials, labour and manufacturing overhead.

(g) Property, plant and equipment

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

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

Amortization of equipment under capital lease is provided for either on the basis and the rates as noted above or over the term of the capital lease.

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

(h) Investment in New Flyer Holdings, Inc.

The Company's investment in NFL Holdings has been determined to be an investment in a variable interest entity (VIE) under AcG-15. Through its ownership of the Class A Shares, up to July 11, 2007 NFI held a 51% voting interest and a 36.9% economic interest in NFL Holdings. As NFI did not hold the majority economic interest in NFL Holdings, NFI was not the primary beneficiary (as that term is defined in AcG-15) of the VIE, and therefore, NFL Holdings was not consolidated by NFI. As a result, NFI accounted for its investment in NFL Holdings using the equity method of accounting whereby the investment was initially recorded at cost and the carrying amount adjusted thereafter by NFI's 100% share of earnings of NFL Holdings which were net of deductions for distributions on the Class B Shares and the Class C Shares held by New Flyer Transit L.P. and New Flyer LLC. Dividends received or receivable from NFL Holdings reduced the carrying value of the investment.

As a result of the reconsideration event described in note 1, management determined that the Company was deemed to be the primary beneficiary of NFL Holdings, in accordance with AcG-15, and as such, the Company began to consolidate the assets, liabilities and the results of operations of NFL Holdings and its subsidiaries on July 12, 2007.

(i) Finite-life intangible assets

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

Patents	12 years
Customer relationships	21 years

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Indefinite-life intangible assets

Intangible assets that have an indefinite life are not amortized, but rather are tested for impairment on an annual basis. Should the carrying amount of the intangible asset exceed its fair value, an impairment loss would be recognized at that time. The New Flyer trade name intangible asset (note 6) has been deemed to have an indefinite life.

(k) Impairment of long-lived assets

Long-lived assets are tested for impairment whenever the circumstances indicate that the carrying value may not be recoverable. When events or circumstances indicate that the carrying value of long-lived assets are not recoverable, the long-lived assets are tested for impairment by comparing the estimate of future undiscounted cash flows to the carrying amount of the assets or group of assets. If the carrying amount is not recoverable from these future expected cash flows, any loss is measured as the amount by which the assets' carrying value exceeds fair value. Recoverability is assessed by comparing the undiscounted cash flows for the direct use and disposition of the assets or group of assets to their respective carrying values.

(l) Goodwill

Goodwill represents the excess of the purchase price over the fair value assigned to identifiable assets and liabilities acquired in a business combination. The Company assesses annually on the first day of the third quarter (or when events and circumstances merit re-visiting), whether there has been an impairment in the carrying value of goodwill based on the fair value of its reporting units. Should the carrying amount of the goodwill exceed its estimated fair value, an impairment loss would be recognized at that time and charged to the statement of operations.

(m) Warranty

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

(n) Foreign currencies

Amounts denominated in a foreign currency are translated to U.S. dollars as follows:

Monetary balances are translated at the period end exchange rate.
Non-monetary balances are translated at the exchange rate prevailing at the date of the transaction.
Revenue and expenses are translated at the rate of exchange prevailing at the date of the transaction.

Foreign subsidiaries, all of which are integrated, are accounted for under the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets are translated at historical rates. Revenue and expenses excluding amortization are translated at average rates for the period. Exchange gains or losses on translation of foreign currencies are included in net earnings.

(o) Financial instruments and derivative financial instruments

Effective January 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook Section 1530, Comprehensive Income, Section 3251, Equity, Section 3855, Financial Instruments – Recognition and Measurement, Section 3861, Financial Instruments – Disclosure and Presentation and Section 3865, Hedges. These new Handbook sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments.

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Section 3865 allows the Company, at its option, to apply hedge accounting provided that the Company properly designates hedges as fair value hedges, cash flow hedges or hedges of a self-sustaining foreign operation. Since the Company does not have any elements of other comprehensive income or designated hedges, the adoption of these sections does not have any impact on the Company's financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Under Section 3855, all financial instruments are classified into one of five categories: financial assets or liabilities held-for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are initially measured on the balance sheet at fair value. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings. Available-for-sale financial assets are measured at fair value with changes in fair value recorded in other comprehensive income until the asset is derecognized or impaired. Other categories are measured at amortized cost using the effective interest method.

As a result of the adoption of these new standards, the Company has classified its cash, and derivative financial instruments as held-for-trading. Accounts receivable and deposits are classified as loans and receivables. Accounts payable, accrued liabilities, due from related parties, obligations under capital leases, long-term debt, and other liabilities, Class B and Class C common shares of NFL Holdings are classified as other financial liabilities. The adjustment net of tax, as at January 1, 2007 increased the Company's deficit by $2,016 and similarly decreased its investment in NFL Holdings. The total adjustment net of tax at January 1, 2007, was made up of: $2,977 to reflect NFL Holdings' accounting for the embedded derivative in the Euro sales contract as described further below, offset by $961 to recognize the amortized cost of NFL Holdings' long-term debt using the effective interest method.

Section 3855 also requires transaction costs incurred in connection with the issuance of financial instruments either be presented as a reduction of the carrying value of the related financial instrument or expensed as incurred. The Company has elected to account for transaction costs of financial instruments classified as other liabilities by reducing the value of the related liability and amortize them using the effective interest method over the liability's expected life. In the case of financial instruments classified as held for trading, the related transactions costs must be expensed as incurred.

Section 3855 requires that under certain conditions, derivatives that are embedded in host financial and non-financial contracts, be separated from the host contract and accounted for separately at fair value. In accordance with this requirement, the Company performed a search for embedded derivatives in all contracts that were entered into after December 30, 2002. As a result of this review an embedded derivative liability was identified in a sales contract requiring cash flows denominated in Euros, where the Euro is not the functional currency of either party to the contract. The embedded derivative was determined to have a fair value of zero at July 12, 2007 and at December 30, 2007. A similar embedded derivative was identified from an extension of the same contract during Fiscal 2008, resulting in an embedded derivative asset of $749.

The following summarizes the methods and assumptions used in estimating the fair value of the Company's financial instruments:

Fair value is based on quoted market prices when available. However, when financial instruments lack an available trading market, fair value is determined using management's estimates and is calculated using market factors for instruments with similar characteristics and risk profiles. These amounts represent point-in-time estimates and may not reflect fair value in the future. These calculations are subjective in nature, involve uncertainties and require significant judgment.

The carrying value of accounts receivable, deposits, accounts payable and accrued liabilities approximates their fair value due to the short-term nature of these instruments. The carrying amount of obligations under capital leases approximates fair value based on the borrowing rates currently available to the Company for leases with similar terms. The carrying value of the term credit facility approximates fair value primarily because the interest rate is variable. All other debt of the Company bears interest at fixed rates. The fair values have been estimated based on future projected cash flows and the risk-free rate on an instrument with similar terms, adjusted for appropriate risk premium for the Company's credit profile.

The Company's foreign exchange forward contracts and cross currency interest rate swap are valued using rates published by the financial institution which is counter-party to these contracts. The fair value of the embedded derivative instrument is determined using a valuation model that incorporates current market and contractual rates of the underlying instrument, discounted future cash flows, yield curves and volatility factors.

Other liabilities, Class B and Class C common shares are recorded at amortized cost, which approximates the fair value based on the redemption value, and is calculated in accordance with the provisions of the securityholders agreement governing NFL Holdings.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Employee future benefits

The funded status of the defined benefit plan is based on the value of the pension plan's assets and an actuarial valuation of the plan's liabilities. Pension plan assets are measured at fair value as at the period end date. The determination of the accrued benefit liability for the pension plan uses the accumulated benefit method, a market discount rate at the period end date, and management's best estimate of the expected long-term rate of return on plan assets. For the purpose of calculating expected return on plan assets, those assets are valued at fair value.

The pension expense for the defined benefit plan is a combination of the current service cost (the value of benefits earned in the year), the interest earned or charged to the assets and liabilities, and any amortization of past service costs (due to plan amendments) and actuarial gains and losses (due to changes in assumptions and plan experience). Both past service costs and actuarial gains and losses are amortized on a straight-line basis over the expected average remaining service lives of plan members. Past service costs are amortized beginning in the year following the plan amendment. Only the cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the accrued benefit obligation or the fair value of the plan assets at the beginning of the year are amortized and reflected in the pension expense.

The pension expense for the defined contribution plans is the annual funding contribution required by the Company.

(q) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for temporary differences between the accounting and tax bases of the Company's assets and liabilities, and are measured using substantively enacted tax rates that are expected to be in effect when the differences are settled. The effect of the changes in income tax rates is recognized in the year in which the rate change is considered substantively enacted. The income tax provision represents income taxes paid or payable for the current year plus the change in the future income taxes during the year. A valuation allowance is provided against future income tax assets when it is more likely than not that all or some portion of the future income tax assets will not be realized.

(r) Asset retirement obligations

The Company follows CICA Handbook Section 3110, "Asset Retirement Obligations". The standard provides guidance for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement cost. The standard applies to legal obligations associated with the retirement of a tangible long-lived asset and applies to obligations for both lessors and lessees in connection with leased assets. Under the standard, the fair value of liabilities for asset retirement obligations is recognized in the period it is incurred. A corresponding increase to the carrying amount of the related asset is recorded and amortized over the life of the asset. The obligations are accreted to full value over time through charges to income.

(s) Performance Unit Plan

Effective January 1, 2008, a Performance Unit Plan ("PUP") was implemented for eligible officers and management employees. Awards are made in the form of phantom Performance Units ("PUs"), which generally vest at the end of a three year period, and will be settled in cash. Compensation expense is recognized on a straight-line basis over the three year period, adjusted to reflect an average current trading unit price and the Company's performance at each balance sheet date, based on the best available estimates of the outcome of the performance conditions. The Company's obligation under the PUP is recorded as a non-current liability.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) New Accounting Policies Adopted

Effective December 31, 2007, the Company adopted four new handbook sections issued by the Canadian Institute of Chartered Accountants (CICA):

Section 1535 "Capital Disclosures" establishes standards for disclosing information about an entity's capital and how it is managed. These standards require an entity to disclose its objectives, policies and processes for managing capital, a summary of quantitative data about what it manages as capital and whether it complied with any externally imposed capital requirements to which it is subject and, if not, the consequences of such non-compliance (note 13).

Section 3862 "Financial Instruments – Disclosures" replaces the disclosure requirements for financial instruments that were included in Section 3861 "Financial Instruments – Disclosure and Presentation". The new standards require an entity to provide disclosures in its financial statements that enable users to evaluate the significance of financial instruments on its financial position and performance, the nature and extent of risks to which it is exposed during the period and at the balance sheet date and how those risks are managed (note 13).

Section 3863 "Financial Instruments – Presentation" replaces unchanged the presentation requirements of the Section 3861 "Financial Instruments – Disclosure and Presentation".

The above noted new standards have no impact on the recognition, measurement or presentation of financial instruments in the Company's consolidated financial statements.

Section 3031 "Inventories", which replaced Section 3030 Inventories, establishes standards on the definition of 'cost' to include all costs of purchase (net of supplier payment discounts), costs of conversion and other costs incurred in bringing the inventories to their present location and condition. As a result, companies are required to systematically allocate variable and fixed production overhead costs that are incurred in converting materials into finished goods. The allocation of fixed production overhead costs is based on normal production capacity of the production facilities. In addition, this standard requires companies to assess the recoverability of inventory costs in comparison to net realizable value. Declines in replacement cost below carrying values for raw material inventories do not require write downs if the finished goods in which they will be utilized are expected to be sold at or above cost. This standard requires disclosing, in the current period, the amount recognized as an expense and the amount recognized as a reversal of previous write-downs (note 4).

The Company has adopted Section 3031 effective December 31, 2007 and has restated the 2008 opening deficit. As a result of this change, inventory was increased by $590 to reflect the amortization of property and manufacturing equipment that was reflected in inventory as at December 30, 2007, current future income tax assets were decreased by $200 and the opening deficit was decreased by $390. The Company's fiscal 2007 comparative interim financial statements have not been restated.

(u) Recently issued accounting pronouncements

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.

Goodwill and intangible assets, Handbook Section 3064

In February 2008, the CICA issued Section 3064, Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company plans to adopt this standard for its 2009 fiscal year and is currently evaluating the impact of adopting this standard.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

International Financial Reporting Standards ("IFRS")

In January 2006, the CICA Accounting Standards Board (AcSB) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards for public companies would be required to converge with IFRS for fiscal years beginning on or after January 1, 2011 with comparative figures presented on the same basis. In February 2008, the CICA ASB confirmed the effective date of the initial adoption of IFRS.

The Company formally commenced its IFRS conversion project in the third quarter of 2008 and has engaged the services of an external advisor with IFRS expertise to work with management. Regular reporting is provided to the Company's senior management and Audit Committee of the Board of Directors. The Company's conversion project consists of three phases: diagnostic assessment, design and development, and implementation. To date, the initial diagnostic assessment phase of the plan has been completed and a detailed IFRS implementation plan has been established. A high level review of the major differences between Canadian GAAP and current IFRS has been undertaken and at this time, the Company cannot reasonably estimate the impact of adopting IFRS on the consolidated financial statements. The Company will continue to invest in training and external advisor resources throughout the transition to facilitate a timely conversion.

Business Combinations*, Handbook Section 1582*

CICA Section 1582, Business Combinations, which replaces CICA Section 1581, Business Combinations, establishes standards for the accounting for a business combination. It is the Canadian equivalent to International Financial Reporting Standard IFRS 3, Business Combinations. The standard applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier applications permitted. The Company has not yet determined the impact of the adoption of this change on its Consolidated Financial Statements.

Consolidated Financial Statements and Non-Controlling Interests, *Handbook Section 1601 and 1602*

CICA Section 1601, Consolidated Financial Statements and Section 1602, Non-controlling Interests replace CICA Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, Consolidated and Separate Financial Statements. These standards are effective on or after the beginning of the first annual reporting period on or after January 2011 with earlier application permitted. The Company has not yet determined the impact of the adoption of these changes on its Consolidated Financial Statements.

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

3. ACCOUNTS RECEIVABLE

	December 28, 2008	December 30, 2007
Trade	$ 89,173	$ 109,397
Income taxes	2,043	
Other	8,094	6,210
	$ 99,310	$ 115,607

The carrying value of accounts receivable is pledged as security against the Credit Facility.

4. INVENTORIES

	December 28, 2008	December 30, 2007
Raw materials	$ 61,215	$ 42,945
Work in process	70,564	62,982
Finished goods	14,015	6,778
	$ 145,794	$ 112,705

During the 52-week period ended December 28, 2008, the cost of sales expense includes $600 (2007: $255) relating to the write-down of inventory to net realizable value. The carrying value of inventories is pledged as security against the Credit Facility.

5. PROPERTY, PLANT AND EQUIPMENT

	December 28, 2008			December 30, 2007		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Land	$ 2,066	$	$ 2,066	$ 2,066	$	$ 2,066
Building and building improvements	10,745	598	10,147	9,115	199	8,916
Machinery and equipment	18,770	6,509	12,261	14,501	1,950	12,551
Demonstrator buses	1,235	541	694	722	140	582
Computer hardware and software	7,282	3,596	3,686	6,377	838	5,539
Office equipment	367	100	267	367	34	333
Under capital lease:						
Computer hardware	2,259	748	1,511	1,831	171	1,660
Machinery and equipment	4,957	1,459	3,498	4,294	339	3,955
	$ 47,681	$ 13,551	$ 34,130	$ 39,273	$ 3,671	$ 35,602

The plant and equipment amortization expense recorded during the 52-week period ended December 28, 2008 was $9,880 (2007: $3,671), including $279 (2007: $Nil) recorded as inventory.

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

6. INTANGIBLE ASSETS

	December 28, 2008			December 30, 2007		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Finite-life intangible assets:						
Patents	$ 99,700	$ 12,215	$ 87,485	$ 99,700	$ 3,907	$ 95,793
Customer relationships	158,700	11,111	147,589	158,700	3,847	154,853
Indefinite-life intangible assets:						
Trade names	154,200		154,200	154,200		154,200
	$ 412,600	$ 23,326	$ 389,274	$ 412,600	$ 7,754	$ 404,846

The intangible asset amortization expense recorded during the 52-week period ended December 28, 2008 was $15,572 (2007: $7,754).

7. OBLIGATIONS UNDER CAPITAL LEASE

The Company has entered into capital leases for equipment, computer hardware and software licenses, with an imputed weighted average interest rate of 6.06% based on individual lease rates ranging between 3.98% and 13.85%, expiring between 2009 and 2014. The following is a schedule of future minimum lease payments, together with the balance of the obligation under the capital leases as at December 28, 2008:

2009	$ 1,642
2010	1,527
2011	1,254
2012	920
2013	547
Thereafter	315
	6,205
Less: Amounts representing interest	746
	5,459
Less: Current portion	1,339
	$ 4,120

8. LONG-TERM DEBT

	Final Maturity	Face Value	Unamortized Transaction Costs	Net Book Value December 28, 2008	Net Book Value December 30, 2007
Subordinated Notes included in the IDS issue (a) (C$261,697)	2020	$ 216,421	$ 1,504	$ 214,917	$ 165,872
Separate Subordinated Notes (b) (C$43,210)	2020	35,734	150	35,584	33,962
Term Credit Facility (c)	2009	90,000	319	89,681	90,000
		342,155	1,973	340,182	289,834
Less current portion		(90,000)	(319)	(89,681)	
		$ 252,155	$ 1,654	$ 250,501	$ 289,834

There are no principal repayments required on long-term debt within the next five years except for the Term Credit Facility to be repaid in August 2009 and as a result the carrying value has been reflected as a current liability.

(a) C$261,697 (2007: C$162,637) is the aggregate principal amount of 14%, unsecured Subordinated Notes denominated in Canadian dollars that mature August 2020. NFI ULC has the option to redeem all or a portion of the Subordinated Notes on or after August 19, 2012, for cash, at a redemption price equal to a premium over the principal amount of the Subordinated Notes together with accrued and unpaid interest, if any.

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

8. LONG-TERM DEBT (Continued)

The Subordinated Notes are subordinated in right of payment to all existing and future senior indebtedness of NFI ULC and are senior in right of payment to any subordinated indebtedness of NFI ULC. The Subordinated Notes are an unsecured obligation of NFI ULC and are guaranteed by NFAI on an unsecured basis.

Except for a tax redemption, NFI ULC may not redeem the Subordinated Notes prior to August 19, 2012. On or after August 19, 2012, NFI ULC may redeem the Subordinated Notes at its option, at any time in whole and from time to time in part, upon not less than 30 nor more than 60 days' notice to holders, for cash, at a redemption price (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest on the Subordinated Notes redeemed to the applicable redemption date, if redeemed during the 52-week period beginning on August 19 during the years indicated below:

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

(b) NFI ULC issued C$43,210 (2007: C$33,300) of 14% Separate Subordinated Notes, under the same terms and conditions as the Subordinated Notes included in the IDS issuance, described in (a) above. The Separate Subordinated Notes and the Subordinated Notes issued as part of the IDSs were issued under the same indenture and the holders will vote together as a single class in proportion to the aggregate principal amount of Subordinated Notes they hold on all matters on which they are eligible to vote under the indenture.

(c) The four-year credit facility due August 19, 2009 (the "Credit Facility") includes a $90,000 secured term loan facility (the "Term Credit Facility"), of which $90,000 was drawn at December 28, 2008, up to a $40,000 secured revolving credit facility (with no drawings at December 28, 2008 and December 30, 2007) and up to a $50,000 letter of credit facility, which was drawn at $19,554 at December 28, 2008 (2007: $16,389). On June 26, 2008 the Company amended the Credit Facility to relax the restrictions on NFI ULC and certain of its affiliates relating to the payment of dividends. As before, dividends may only be paid from accumulated excess cash flow (as determined in accordance with the Credit Facility); however, fluctuations in working capital will no longer be included in determining excess cash flow. Additionally, dividends may now be paid based on excess cash flow generated during the prior four fiscal quarters. The inclusion of working capital fluctuations in the determination of the pre-existing dividend restrictions under the Credit Facility resulted in certain breaches of such restrictions during 2006 and 2007. In connection with the amendment, New Flyer's senior lenders waived the past breaches. The fees related to this amendment have been capitalized and will be expensed over the remaining term of the Term Credit Facility. Similar breaches also occurred under the note indenture governing the Subordinated Notes. NFI ULC has rectified those breaches and has established a procedure to better align the ability to fund dividends on NFI's common shares under the provisions of the note indenture with the ability to do so under the amended Credit Facility. That procedure permits NFI ULC to make loans to NFI to support NFI dividend payments on the common shares during periods where NFI ULC has available cash and the note indenture provisions would restrict dividends paid by NFL Holdings to NFI. New Flyer implemented this procedure during Fiscal 2008 and the related loans have subsequently been repaid in full.

The obligations in respect of the Credit Facility are secured by: (A) a perfected lien on, and pledge of, (i) all of the capital stock of, and inter-company notes owing to, THI and (ii) all of the capital stock of, and inter-company notes owing to THI and all of its existing and future direct and indirect subsidiaries (other than New Flyer LLC) (collectively, the "Guarantors"), and (B) a perfected lien on, and security interest in, all of the existing and future tangible and intangible properties and assets of (i) NFI ULC, (ii) NFAI, (iii) THI and (iv) each of the Guarantors, with certain exceptions. NFL Holdings has provided a limited recourse guarantee of the obligations under the Credit Facility secured by its capital stock in THI, and NFI, though not a Guarantor, entered into a collateral covenant agreement.

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.

9. OTHER LIABILITIES, CLASS B AND C COMMON SHARES OF NFL HOLDINGS

The Class B Shares and the Class C Shares were issued to New Flyer Transit LP and New Flyer LLC on August 19, 2005. As at September 3, 2008 all of New Flyer Transit LP's Class B and Class C Shares were fully redeemed.

Authorized (000s)	
3,000	Class B Shares, par value of $0.01 per share, further described below.
35,000	Class C Shares, par value of $0.01 per share, further described below.

Issued (000s)		December 28, 2008	December 30, 2007
464	Class B Shares (2,563 – December 30, 2007)	$ 2.957	$ 25,810
2,054	Class C Shares (21,095 – December 30, 2007)	13,094	212,479
		$ 16,051	$ 238,289

	Class B Shares	Class C Shares	Total
Redemption value at December 31, 2006	$	$	$
Effect of the consolidation on July 12, 2007	22,692	291,288	313,980
Cancelled on July 12, 2007		(104,476)	(104,476)
Redemption value adjustment	3,118	25,667	28,785
Redemption value at December 30, 2007	$ 25,810	$ 212,479	$ 238,289
Cancelled on April 10, 2008		(102,864)	(102,864)
Cancelled on September 3, 2008	(19,507)	(76,321)	(95,828)
Redemption value adjustment	(3,346)	(20,200)	(23,546)
Redemption value at December 28, 2008	$ 2,957	$ 13,094	$ 16,051

In connection with the 2008 transaction described in note 1a, the net proceeds from the sale of IDSs less underwriters' fees and certain other costs of the IDS offerings were used by NFL Holdings to purchase for cancellation 2,098,654 Class B Shares and 19,041,721 Class C Shares.

Due to the liquidity rights provisions of the Class B Shares and Class C Shares (described below), these shares have been recorded as liabilities pursuant to GAAP. The redemption value of the Class B Shares and Class C Shares increases as the market value of the IDSs increases, and decreases as the market value of the IDSs decreases. During the 52-week period ended December 28, 2008, the Company recorded a decrease in the liabilities represented by the Class B Shares and Class C Shares of $3,346 and $20,200, respectively, to reflect the current redemption value of those shares calculated in accordance with the provisions of the securityholders agreement governing NFL Holdings.

During the 52-week period ended December 28, 2008, NFL Holdings declared dividends of $1,333 and $7,443 to the holders of Class B Shares and Class C Shares, respectively.

Class B Shares and Class C Shares are entitled to fixed cumulative preferential cash dividends at the discretion of the board of directors of NFL Holdings, at a rate equal to 14% of the Liquidation Amount, defined below, per annum, or at such other rate as is in effect for interest payments on the subordinated notes of NFI ULC, decreased by a percentage equal to the combined U.S. federal and state corporate income tax rate applicable to NFL Holdings, to be paid before any dividends on the Class A Shares. Thereafter, dividends are payable to the holders of Class A, B and C Shares pro rata (adjusted for taxes in the case of the Class A Shares) unless and until the Enhanced Dividend, defined below, becomes payable and, thereafter, pro rata taking into account the Enhanced Dividend, which is non-cumulative and may only be paid to holders of Class B and C Shares in respect of any month if NFL Holdings has declared and paid dividends on the Class A Shares at not less than the monthly amount of $0.027 per share (adjusted for taxes) for such month. In the event of the winding up of NFL Holdings, the Class B and C Shares are entitled to receive the sum of C$5.53 per share (the "Liquidation Amount") and accrued and unpaid dividends before the remaining assets are distributed ratably among the holders of Class A, B and C Shares.

9. OTHER LIABILITIES, CLASS B AND C COMMON SHARES OF NFL HOLDINGS (Continued)

The subordination provisions in the certificate of incorporation of NFL Holdings required that distributions on the Class B Shares are subordinated in favour of distributions on the Class A and C Shares until certain conditions have been met. As of December 30, 2007 the subordination provisions applicable to the Class B Shares were extinguished as a result of the conditions being satisfied.

New Flyer LLC owns all of the issued and outstanding Class B Shares and Class C Shares and also has the right, in certain circumstances, to request NFL Holdings to use its best efforts to arrange a financing commitment in order to permit the acquisition or purchase for cancellation of the Class B Shares and the Class C Shares at fair market value pursuant to the NFL Holdings security holders agreement (the "Liquidity Right"). As a result, the Class B Shares and the Class C Shares have been classified as a liability of NFL Holdings and are recorded at redemption value on the consolidated balance sheet. The liability is revalued to redemption value at each balance sheet date in accordance with the valuation principles set out in the NFL Holdings securityholders agreement.

In the event that the Liquidity Right is exercised and not successful, a portion of the dividend paid in respect of those Class B Shares and Class C Shares in respect of which the Liquidity Right has been exercised will be increased by 10% relative to the dividend paid on the Class A Shares (the "Enhanced Dividend"). NFL Holdings has the right to redeem the shares (the "Redemption Right") subject to the Enhanced Dividend for fair market value.

10. SHARE CAPITAL

Authorized	
Unlimited	Common Shares

Issued		December 28, 2008	December 30, 2007
47,323,100	Common Shares (2007 – 29,410,000)	$ 217,469	$ 120,291

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

Common Shares	Number (000s)	$
Balance – December 31, 2006	20,000	$ 66,320
Common shares issued for cash consideration on July 12, 2007	9,410	55,096
Less: share issuance costs (net of income taxes of $406)		(1,125)
Balance – December 30, 2007	29,410	$ 120,291
Common shares issued for cash consideration on April 10, 2008	8,770	50,520
Common shares issued for cash consideration on September 3, 2008	9,143	48,513
Less: share issuance costs (net of income tax of $621)		(1,855)
Balance – December 28, 2008	47,323	$ 217,469

The basic and diluted earnings per share has been calculated using the weighted average number of shares outstanding for the 52-week periods ended December 28, 2008 and December 30, 2007 as 38,685,420 and 24,446,484, respectively.

The Company declared dividends of $14,314 during the 52-week period ended December 28, 2008 (2007 - $8,831) to the holders of common shares.

The dividends on the common shares represented by an IDS will be paid if and to the extent dividends are declared by NFI's board of directors and permitted by applicable law. NFI has adopted a dividend policy whereby the Company generally declares dividends of its available cash to the maximum extent possible by way of equal monthly dividends after satisfying its debt service or other obligations under any credit facilities or other agreements with third parties, satisfying its interest and other expense obligations including any applicable taxes, and retaining reasonable working capital or other reserves as may be considered appropriate by its board of directors.

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

11. CASH FLOW INFORMATION

Changes in non-cash working capital items

	Fiscal 2008	Fiscal 2007
Accounts receivable	$ 16,297	$ (34,327)
Inventories	(32,183)	3,786
Prepaid expenses and deposits	1,848	967
Accounts payable and accrued liabilities	17,830	11,028
Deferred revenue	(6,881)	8,981
Provision for warranty costs	(1,510)	2,055
	$ (4,599)	$ (7,510)

	Fiscal 2008	Fiscal 2007
Cash payments of interest	$ 36,883	$ 16,429
Cash payments of income taxes	23,892	12,180

12. INCOME TAXES

The reconciliation of income tax computed at the statutory rates, to income tax expense is as follows:

	Fiscal 2008	Fiscal 2007
Earnings (loss) before income tax	$ 95,560	$ (119,944)
Combined statutory rate	33.5%	36.1%
	32,013	(43,300)
Non-taxable loss from equity accounted Investment		29,638
Benefit of deductible share issue costs	(640)	(672)
Valuation allowance	1,031	642
Withholding and other taxes	1,438	2,589
Non-deductible expenses	178	28
Revision of tax estimates	409	771
Impact of subsidiaries' foreign branch operations	2,853	450
Foreign exchange impact of subsidiaries' foreign branch	(23,444)	6,197
Distributions on Class B and C common shares treated as interest expense	2,940	3,150
Impact of other liabilities, Class B and C common shares fair value adjustment	(7,888)	10,391
Other	(964)	841
Income tax expense	$ 7,926	$ 10,725
Comprised of:		
Current income taxes	$ 10,279	$ 11,070
Future income taxes recovered	(2,353)	(345)
Income tax expense	$ 7,926	$ 10,725

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

12. INCOME TAXES (Continued)

The Company has a loss carry-forward of $6,094 which may be applied against future taxable income. The right to claim these losses expires as follows:

2009 to 2019 (includes $606 of U.S. federal tax losses that are restricted in application to $55 per year)	$	1,110
2026		1,592
2027		1,233
2028		2,159
	$	6,094

The Company has undeducted share issuance costs in the amount of $4,896. The loss carry-forwards and the undeducted share issuance costs resulted in a future income tax asset of $3,151. Annually, the Company reviews the likelihood of realization of the future benefits of the loss carry-forwards. In management's opinion only certain loss carry forwards have met the criteria for recording a future tax asset in the amount of $355.

Significant components of the future tax assets and liabilities at the period end are as follows:

		December 28, 2008		December 30, 2007
Future income tax assets				
Accounts payable and accrued liabilities	$	1,500	$	1,485
Inventory and warranty reserves		11,304		12,583
Non-capital losses carried forward		355		392
Other assets		803		492
Accrued benefit liability		1,129		1,767
Deferred financing costs		3,306		4,734
Tax credit pool		41,605		33,488
Valuation allowance		(32,073)		(13,988)
Future income tax assets	$	27,929	$	40,953
Future income tax liabilities				
Accounts payable and accrued liabilities	$		$	(7,601)
Property, plant and equipment		(2,386)		(4,406)
Intangible assets		(142,085)		(147,770)
Inter-company profit elimination		(33)		(451)
Unamortized transaction costs		(700)		
Embedded derivative instrument		(264)		
Unrealized foreign exchange gain/losses		(342)		
Other assets		(284)		(44)
Future income tax liabilities	$	(146,094)	$	(160,272)
Net future income tax liability	$	(118,165)	$	(119,319)
Recorded as				
Current future income tax assets	$	13,173	$	15,425
Non-current future income tax assets		9,618		19,566
Non-current future income tax liabilities		(140,956)		(154,310)
	$	(118,165)	$	(119,319)

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

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Financial Instruments

The Company has made the following classifications:

Cash	Held-for-trading
Accounts receivable	Loans and receivables
Deposits	Loans and receivables
Accounts payables and accrued liabilities	Other Liabilities
Obligations under capital leases	Other Liabilities
Long-term debt	Other Liabilities
Derivative Financial instruments	Held-for-trading
Other liabilities, Class B and Class C common shares	Other Liabilities

(b) Fair value of financial instruments

Fair value is based on quoted market prices when available. However, when financial instruments lack an available trading market, fair value is determined using management's estimates and is calculated using market factors for instruments with similar characteristics and risk profiles. These amounts represent point-in-time estimates and may not reflect fair value in the future. These calculations are subjective in nature, involve uncertainties and are a matter of significant judgment.

The carrying value of cash, accounts receivable, deposits and accounts payable and accrued liabilities approximates their fair value due to the short-term nature of these instruments. The carrying amount of obligations under capital leases approximates fair value based on the borrowing rates currently available to the Company for leases with similar terms. The carrying value of the Term Credit Facility approximates fair value primarily because the interest rate is variable. All other debt of the Company bears interest at fixed rates. The fair values have been estimated based on future projected cash flows and, the risk-free rate on an instrument with similar terms, adjusted for appropriate risk premium for the Company's credit profile.

Estimated fair value amounts for the financial instruments that relate to the Company's debt that bears interest at fixed interest rates are as follows:

	December 28, 2008		December 30, 2007	
	Net Book Value	Fair Value	Net Book Value	Fair Value
Subordinated Notes included in the IDS issue	$ 214,917	$ 219,870	$ 165,872	$ 166,225
Separate Subordinated Notes	$ 35,584	$ 36,304	$ 33,962	$ 34,035

The Company's foreign exchange forward contracts and cross currency interest rate swap are carried at fair value using rates published by the financial institution which is counter-party to these contracts.

Other liabilities, Class B Shares and Class C Shares are recorded at amortized cost, which approximates the fair value based on the redemption value, and is calculated in accordance with the provisions of the securityholders agreement governing NFL Holdings.

(c) Risk Management

The Company uses derivative financial instruments including interest rate swaps 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. At December 28, 2008 and at December 30, 2007, there were no open forward contracts.

The Company entered into a cross-currency interest rate swap with an initial notional principal amount of C$108,000 at 7.13%, maturing on August 19, 2009, to manage interest rate risk relating to potentially adverse changes in the LIBOR rate on the Term Credit Facility and estimated foreign exchange risk from future operations. The fair value of the cross-currency interest rate swap at December 28, 2008 is $1,849 (2007: $3,148) and the change in fair value has been recorded as interest expense for the reported period. The related liability is recorded on the balance sheet as a current derivative financial instruments liability.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

During the 52-week period ended December 28, 2008, the Company entered into forward contracts to buy Canadian dollars with United States dollars at an agreed exchange rate. The settlement of the forward contracts were recorded as realized foreign exchange losses or gains in net earnings for the reported period. During the 52-week period ended December 28, 2008, the Company recorded realized foreign exchange losses relating to the settlement of the forward contracts of $1,948 (2007: $6,557).

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

Market risk (interest rate risk and currency risk)

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

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

(d) Interest rate risk

NFI's borrowings under the Term Credit Facility are at variable rates of interest and expose the Company to interest rate risk. The Company attempts to mitigate this risk through interest rate swaps that could become materially more expensive if interest rates increase or become more volatile. If the cost of mitigating interest rates increases, the Company's debt service obligations on its variable rate indebtedness would increase even though the amount borrowed remained the same, and the Company's net earnings and cash available for servicing its other indebtedness would decrease. The Company has entered into a cross currency interest rate swap until August 2009, which fixes the interest rate on the Company's Term Credit Facility at 4.63%. plus the applicable credit spread.

The cross currency interest rate swap is subject to interest rate risk and as such, if interest rates at the balance sheet date had been 100 basis points lower, with all other variables held constant, after-tax net earnings for the 52-week period ended December 28, 2008 would have been higher by $375, arising mainly as a result of the related fair value adjustment recorded as lower interest expense. If interest rates had been 100 basis points higher, with all other variables held constant, after-tax net income for the 52-week period ended December 28, 2008 would have been lower by $372, arising mainly as a result of the related fair value adjustment recorded as higher interest expense.

(e) Foreign currency risk

The United States dollar is the Company's functional currency. Fluctuations in the exchange rate between the United States dollar and Canadian dollar will affect the Company's reported results. However, the impact of changes in foreign exchange rates on the Company's reported results differs over time depending on whether the Company is generating a net cash inflow or outflow of Canadian dollars. This is largely dependent on the Company's revenue mix by currency as operating costs denominated in Canadian dollars have been relatively stable. As well, to the extent the Company has borrowings that are denominated in Canadian dollars, its results of operations are also positively affected by a weakening in the Canadian dollar compared to the United States dollar. During the 52-week period ended December 28, 2008, the Company generated a net inflow of Canadian dollars.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk, primarily Canadian dollar balances relating to long-term debt and cross currency interest rate swap. At December 28, 2008, if the Canadian dollar had weakened 10 percent against the US dollar, with all other variables held constant, after-tax net earnings for the 52-week periods ended December 28, 2008 would have been higher by $12,979, respectively. Conversely, if the Canadian dollar had strengthened 10 percent against the US dollar with all other variables held constant, after-tax net earnings would have been lower by $15,204 for the 52-week periods ended December 28, 2008. The impact of these potential fluctuations produce unrealized foreign exchange gains and losses almost entirely related to the cross-currency interest rate swap and the Canadian denominated long-term debt that matures in 2020.

(f) Share price risk

The liability related to the redemption value of the Class B Shares and Class C Shares increases as the market value of the IDSs increases, and decreases as the market value of the IDSs decreases. At December 28, 2008, if the IDSs price had weakened 10 percent, with all other variables held constant, after-tax net earnings for the 52-week period ended December 28, 2008 would have been higher by $1,605. Conversely, if the IDSs price had strengthened 10 percent with all other variables held constant, after-tax net earnings would have been lower by $1,605 for this same period.

(g) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. Financial liabilities consist of accounts payable and accrued liabilities, obligations under capital leases, long-term debt, derivative financial instruments and other liabilities Class B Shares and Class C Shares. Trade payables and accrued liabilities are paid in the normal course of business and except under certain exceptions, no later than three months.

The following table outlines the Company's maturity analysis of certain non-current financial liabilities and leases as at December 28, 2008:

US dollars in thousands	Total	2009	2010	2011	2012	2013	Post 2013
Term Credit Facility	$ 90,000	$ 90,000	$	$	$	$	$
Subordinated Notes included in IDS issue	216,421						216,421
Separate Subordinated Notes	35,734						35,734
Capital leases	6,205	1,642	1,527	1,254	920	547	315
Operating leases	32,659	2,958	2,051	1,972	1,997	1,879	21,802
	$ 381,019	$ 94,600	$ 3,578	$ 3,226	$ 2,917	$ 2,426	$ 274,272

The Class B Shares and Class C Shares have no fixed maturity. However, there are provisions in the securityholders' agreement governing NFL Holdings that provide the holders of these shares a liquidity right to request the Company to obtain a financing commitment to purchase their shares for cancellation. The liquidity right may not be exercised on more than two occasions in any twelve month period.

The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At December 28, 2008, the Company has a cash balance of $30,721 and has a $40,000 secured revolving credit facility. As at December 28, 2008, there were no direct borrowings under this secured revolving credit facility.

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

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

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(h) Credit risk

Financial instruments which potentially subject the Company to credit risk and concentrations of credit risk consist principally of cash, accounts receivable and derivatives. Management has assessed that the credit risk associated with accounts receivable is mitigated by the significant proportion for which the counterparties are well established transit authorities. Additionally, the U.S. federal government funds a substantial portion of U.S. customer payments, as 80% of the capital cost of new buses typically come from the U.S. Federal Transportation Administration, while the remaining 20% comes from state and municipal sources. The maximum exposure to the risk of credit for accounts receivables corresponds to their book value. Historically, the Company has experienced nominal bad debts as a result of the customer base being principally comprised of municipal and other local transit authorities, however during the 52-week period ended December 28, 2008, the Company recorded a bad debt expense of $772 (2007- Nil).

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

The following table details the aging of the Company's receivables and related allowance for doubtful accounts at December 28, 2008:

Current, including holdbacks	$	85,267
Past due amounts but not impaired		
1 – 60 days		9,972
Greater than 60 days		4,146
Less: Allowance for doubtful accounts		(75)
Total accounts receivables, net	$	99,310

As at December 28, 2008, there was no amount that would otherwise be past due or impaired whose terms have been renegotiated.

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

(i) Capital management

The Company's objectives in managing capital are to deploy capital to provide an appropriate return to IDS holders and to maintain a capital structure that provides the flexibility to take advantage of growth and development opportunities of the business, maintain existing assets, meet financial obligations and enhance IDS holder value. The capital structure of the Company consists of cash, long-term debt including the current portion, other liabilities Class B Shares and Class C Shares and shareholders' equity. The Company manages capital to ensure an appropriate balance between debt and equity.

In order to maintain or adjust its capital structure, the Company may purchase Class B Shares and Class C Shares for cancellation, issue additional IDS units, borrow additional funds or refinance debt at different terms and conditions.

As a result of borrowing agreements entered into by the Company, there are certain financial covenants that must be maintained. Financial covenants include a fixed charge coverage ratio, senior leverage ratio and total leverage ratio.

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

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

As at December 28, 2008, the Company is in compliance with the financial covenants in its Credit Facility. The results of the financial covenants tests as of such date are as follows:

	December 28, 2008	December 30, 2007
Senior Leverage Ratio (must be less than 2.25)	1.04	0.99
Total Leverage Ratio (must be less than 5.75) (a)	3.80	3.07
Fixed Charge Coverage Ratio (must be greater than 1.10)	1.56	2.72

(a) The Total Leverage Ratio covenant limit reduced from 6.00 on December 31, 2007 per August 2005 credit agreement.

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.

14. SEGMENT INFORMATION

The Company has two operating segments: Bus Operations and Aftermarket Operations.

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 servicing related to heavy-duty transit buses. These operating segments are consistent with the management of the business, which is based on the products and services offered.

There is no inter-segment revenue. Unallocated items in the consolidated earnings before income taxes primarily include foreign exchange gains or losses, losses or gains on disposition of property, plant and equipment, amortization of property, plant and equipment, amortization of intangible assets, follow-on offering related costs, interest expense and income, accretion in carrying value of long-term debt, fair value adjustments to embedded derivative, loss from equity accounted investment, gains and losses on the Company's cross-currency interest rate swap and distributions on Class B Shares and Class C Shares. Corporate overhead costs are allocated fully to the Bus Operations segment.

The unallocated total assets of the Company primarily include cash, intangible assets, due from related party and future income tax assets.

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

Segment information about profits and assets is as follows:

	Fiscal 2008			
	Bus Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 865,290	$ 96,011	$	$ 961,301
Operating costs and expenses	790,261	76,432		866,693
Earnings before income taxes	75,029	19,579	952	95,560
Total assets	418,625	37,715	443,004	899,344
Capital expenditures	6,109	709		6,818
Goodwill	162,437	5,084		167,521

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

14. SEGMENT INFORMATION (Continued)

	Fiscal 2007 (note 1b)			
	Bus Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 380,891	$ 40,173	$	$ 421,064
Operating costs and expenses	341,564	31,683		373,247
Earnings (loss) before income taxes	39,327	8,490	(167,761)	(119,944)
Total assets	410,346	31,773	465,130	907,249
Capital expenditures	1,279	109		1,388
Goodwill	162,437	5,084		167,521

The allocation of revenue to geographic areas is as follows:

	Fiscal 2008	Fiscal 2007 (note 1b)
United States	$ 696,257	$ 241,258
Canada	265,044	179,806
Total	$ 961,301	$ 421,064

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

	December 28, 2008	December 30, 2007
United States	$ 8,244	$ 8,317
Canada	25,886	27,285
Total	$ 34,130	$ 35,602

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

	Fiscal 2008	Fiscal 2007 (note 1b)
Customer A	$ 199,293	$ 61,968
Customer B		64,914
Customer C		50,486

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

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

15. EMPLOYEE FUTURE BENEFITS

Defined benefit plan

The Company's subsidiary, NFI ULC, has a defined benefit plan which covers unionized employees. On July 12, 2007 (remeasurement date), as a result of the reconsideration event described in note 1(b), management determined that the Company was deemed to be the primary beneficiary of NFL Holdings. As a result the Company was required to consolidate the fair value of the accrued benefit liability as of the remeasurement date and as such the Company changed the discount rate used from 5.25% to 5.50% to reflect the interest rate environment as at that date.

An actuarial valuation was last performed as at December 31, 2007. The next compulsory actuarial valuation as of December 31, 2008 will be completed in 2009.

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

	December 28, 2008	December 30, 2007
Change in plan assets		
Plan assets at fair value beginning of period	$ 19,323	$ 17,217
Actual return on plan assets	(2,667)	(115)
Employer's contributions	2,545	1,236
Benefits paid	(756)	(371)
Foreign exchange	(3,548)	1,356
Plan assets at fair value end of period	14,897	19,323
Change in accrued benefit obligation		
Accrued benefit obligation beginning of period	24,934	22,264
Current service cost	1,605	731
Interest cost	1,287	605
Benefits paid	(756)	(371)
Foreign exchange	(4,295)	1,693
Actuarial (gain) loss	(5,629)	12
Accrued benefit obligation end of period	17,146	24,934
Funded status plan deficit	(2,249)	(5,611)
Unamortized net actuarial (gain) loss	(845)	771
Accrued benefit liability	$ (3,094)	$ (4,840)

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

	Fiscal 2008	Fiscal 2007
Accrued benefit obligation		
Discount rate	7.50%	5.50%
Pension plan expense		
Discount rate	5.50%	5.50%
Expected long-term rate of return on plan assets	7.00%	7.00%

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

15. EMPLOYEE FUTURE BENEFITS (Continued)

The Company's defined benefit plan is a fixed benefit plan and, as a result, the rate of compensation increases does not have any impact on the actuarially determined accrued benefit liability.

The Company's net defined benefit pension plan expense is as follows:

		Fiscal 2008		Fiscal 2007
Current service costs	$	1,605	$	731
Interest cost on accrued benefit obligations		1,287		605
Actual return on assets		2,667		115
Foreign exchange				279
Actuarial (gain) loss on accrued benefit obligations		(5,629)		12
Pension cost (recovered) before adjustments to recognize long-term nature of the plan		(70)		1,742
Difference between expected and actual return on plan assets		(3,976)		(690)
Difference between actuarial gain/loss recognized and actual actuarial gain/loss on benefit obligation		5,629		(12)
Pension expense for the period	$	1,583	$	1,040

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

	December 28 2008	December 30, 2007
Asset category		
Canadian equities	19.4%	22.1%
Foreign equities	23.7%	29.6%
Bonds	56.9%	48.3%
	100.0%	100.0%

Defined contribution pension plans

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

		Fiscal 2008		Fiscal 2007
Defined contribution pension expense	$	1,419	$	584

Cash payments contributed by the Company during the 52-week period ended December 28, 2008 for its defined benefit and defined contribution pension plans amounted to $3,964 (2007: $1,820).

16. PERFORMANCE UNIT PLAN LIABILITY

Effective January 1, 2008, NFI ULC adopted the PUP to replace the existing long-term incentive plan ("LTIP"). The LTIP will continue in place through 2009 for certain senior management who were participants of the LTIP on December 31, 2007. The purpose of the PUP is to attract, motivate and reward officers and senior managers of the Company by making a significant portion of their long term incentive compensation dependent on the Company's financial performance. One of the key advantages of the PUP is that it will further align the interests of management and IDS holders given that the award grant and redemption values will be determined based on the market price of the IDSs. Under the terms of the PUP, the compensation, nominating and corporate governance committee may grant eligible participants each year PUs which give the holders thereof the right to receive, upon vesting and redemption of a PU, a cash payment equal to the fair market value of an IDS, determined based on the average trading price of the IDS units for the 5 trading days preceding the redemption date. When distributions are paid on an IDS, additional PUs equivalent to the amount of the distributions multiplied by the number of PUs held (and determined based on the average trading price of the IDS units for the 5 trading days preceding payment date) will be credited to the participant's PU account. PUs generally vest at the end of the third fiscal year following the date of grant, subject to and based on the Company achieving certain specified performance targets.

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

16. PERFORMANCE UNIT PLAN LIABILITY (Continued)

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

The Company recognizes compensation expense using the accrual method, based on the best available estimates of the outcome of the performance condition. The effect of a change in estimate is recognized in the period in which it occurs. For the performance cycle starting January 1, 2008, 285,896 PUs were initially granted to certain key executives and an additional 14,893 PUs were granted to a new executive vice-president and 84,817 were forfeited due to retirement or termination without cause during the 52-week period ended December 28, 2008. An additional 32,004 PUs were credited to the participants for distributions paid and 9,251 PUs from distributions were forfeited in the 52-week period ended December 28, 2008. For the 52-week period ended December 28, 2008, a compensation expense of $1,275 was recorded in the consolidated statements of operations in relation to this PUP, and all PUs were unvested.

17. RELATED PARTY TRANSACTIONS

The Company has the following related party balances at December 28, 2008.

	December 28 2008	December 30 2007
Due from New Flyer LLC (held by management), interest rate of 15.5%, payable on demand	$ 218	$

The related party transactions were measured at the exchange amount, which is the amount of consideration established and agreed to by the related party. The loan was repaid subsequent to December 28, 2008.

18. COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitments

The Company has leased real property with aggregate minimum lease payments of $32,659 payable as follows:

2009	$ 2,958
2010	2,051
2011	1,972
2012	1,997
2013	1,879
Thereafter	21,802
	$ 32,659

(b) In the normal course of business, the Company receives notice of potential legal proceedings or is named as a defendant in legal proceedings, including those related to product liability, wrongful dismissal or personal injury. Many claims are covered by the Company's insurance policies and none of the current claims are expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

(c) Through the normal course of operations, the Company has indemnified the surety companies providing surety bonds required under various contracts with customers. In the event that the Company fails to perform under a contract and the surety companies incur a cost on a surety bond, the Company is obligated to repay the costs incurred in relation to the claim up to the value of the bond. The Company's guarantee under each bond issued by the surety companies expires on completion of obligations under the customer contract to which the bond relates. The estimated maturity dates of the surety bonds outstanding at December 28, 2008 range from January 2009 to May 2010.

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

At December 28, 2008, outstanding surety bonds guaranteed by the Company totaled $20,238 (2007: $39,477). 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.

19. COMMITMENTS AND CONTINGENCIES (Continued)

(d) The Company has a letter of credit facility of $50,000. As at December 28, 2008, letters of credit totaling $19,554 (2007: $16,389) remain outstanding under the letter of credit facility as security for the following contractual obligations of the Company:

	December 28 2008	December 30 2007
Collateral to secure operating facility leases	$ 261	$ 256
Collateral to secure surety facilities	3,599	10,600
Customer performance guarantees	15,214	4,597
Collateral in support of self-insured workers compensation obligations	480	936

As at December 28, 2008, 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.

20. GUARANTEES

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

21. COMPARATIVE FIGURES

Certain of the prior period figures have been reclassified to conform to current period's presentation.

22. SUBSEQUENT EVENT

a) The existing Credit Facility of the Company matures on August 19, 2009 (note 8). Subsequent to year-end, the Company received a financing commitment with the existing lenders and one new lender to extend the Credit Facility three years from closing date, on terms and conditions that are similar to the existing Credit Facility agreement. Management expects that the revised credit agreement will be finalized during the second quarter of 2009.

b) On February 13, 2009 the Company entered into foreign exchange options to sell C$12,000 expiring September 15, 2009 at a strike exchange rate of $1.2700 ("cap") and foreign exchange options to sell C$12,000 also expiring on September 15, 2009 at a strike exchange rate of $1.2176 ("floor"). These instruments create a "zero cost collar" currency strategy which insulates the Company from movements in the Canadian dollar outside the cap and the floor rates up to a maximum of C$12,000. The Company has elected not to apply hedge accounting to its derivative financial instruments. As such, any future changes in fair value for these instruments will be recorded in the consolidated statements of operations.