March 23, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS AND 53-WEEKS ENDED JANUARY 3, 2010

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 53-week period ended January 3, 2010 ("Fiscal 2009"). 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"), an Alberta unlimited liability corporation, is the issuer of the Subordinated Notes, that, together with the common shares, form the income deposit securities of the Issuer ("IDSs"). As of January 3, 2010, 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 NFI and its consolidated subsidiaries immediately following, the consummation of the transactions completed on July 12, 2007 and described in note 1 of the consolidated financial statements of NFI for the 52-week period ended December 28, 2008 ("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 (the "reconsideration event"), management has determined that NFI is deemed to be the primary beneficiary of NFL Holdings in accordance with CICA Accounting Guideline-15, and as such, effective 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, including the Issuer's annual information form is available on SEDAR at www.sedar.com.

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

Forward-looking Statements

Certain statements in this MD&A are "forward-looking statements", which reflect the expectations of management regarding the Issuer's and the Company's future growth, results of operations, performance and business prospects and opportunities. The words "believes", "anticipates", "plans", "expects", "intends", "projects", "estimates" and similar expressions are intended to identify forward-looking statements. These forward-looking statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this MD&A. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not or the times at or by which such performance or results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements. Such differences may be caused by factors which include, but are not limited to, competition in the heavy-duty transit bus industry, availability of funding to the Company's customers 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 and the

Ontario government's Canadian content purchasing policy may change and/or become more onerous, production delays may result in liquidated damages under the Company's contracts with its customers, the Company's ability to execute its planned production targets and reallocate production as a result of deferred bus orders, the Company's ability to generate cash from the planned reduction in excess work in process, currency fluctuations could adversely affect the Company's financial results or competitive position in the industry, the Company may not be able to maintain performance bonds or letters of credit required by its existing contracts or obtain performance bonds and letters of credit required for new contracts, third party debt service obligations may have important consequences to the Company, the covenants contained in 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, interest rates could change substantially and materially impact the Company's profitability, the dependence on limited sources of supply, the timely supply of materials from suppliers, the possibility of fluctuations in the market prices of the pension plan investments and discount rates used in the actuarial calculations will impact pension expense and funding requirements, the Company's profitability and performance can be adversely affected by increases in raw material and component costs 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 press releases and materials filed with the Canadian securities regulatory authorities and are available on SEDAR at www.sedar.com.

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

DEFINITIONS OF EBITDA, ADJUSTED EBITDA AND 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 and related transactions (as described in note 1(a) of the consolidated financial statements of NFI for Fiscal 2008) (the "April 2008 Offering") and the transaction related costs for the September 3, 2008 offering and related transactions (the "September 2008 Offering", together with the April 2008 Offering, the "2008 Offerings") (described in note 1(a) of the consolidated financial statements of NFI for Fiscal 2008). The 2008 Offerings 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.

Business Overview

New Flyer is the leading manufacturer of heavy-duty transit buses in the United States and Canada and a leading provider of aftermarket parts and support. The Company's three manufacturing facilities in Winnipeg, MB, St. Cloud, MN and Crookston, MN are all ISO 9001, ISO 14001 and OHSAS 18001 certified. The Company also has three parts distribution centers in Winnipeg, MB, Erlanger, KY and Fresno, CA. With a skilled workforce of approximately 2,300 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.

2009 Year in Review

Fiscal 2009 turned out to be a successful year as the Company's annual revenue and Adjusted EBITDA surpassed $1.0 billion and $100.0 million, respectively, for the first time in the Company's history, in addition to generating a payout ratio of 72.8%. The year began with a change in leadership as newly appointed President and CEO, Paul Soubry, succeeded John Marinucci who had retired from that role but who continued on as a member of the Issuer's Board of Directors. Significant positive achievements were made during the first half of the year, including: refinancing of the Company's senior credit facility for an additional three years resulting in an extension to April 2012, named for the second consecutive year as one of Canada's Greenest Employers for 2009 and for the second consecutive year as Financial Post's Ten Best Companies to Work For and being recognized as one of Canada's Top 100 Employers for the fifth consecutive year and ratification of a new three-year collective bargaining agreement with the Canadian Auto Workers' main collective bargaining unit at the Company's Winnipeg facility.

The Company increased its focus on customer service while continuing to grow the aftermarket operations with the opening of the U.S. West Coast Parts Distribution Center. Aftermarket operations represented approximately 10% of the Company's 2009 revenue and 23% of the Company's 2009 Adjusted EBITDA.

The second half of Fiscal 2009 proved to be challenging as the Company announced that production of 140 diesel-electric hybrid articulated buses (representing 280 equivalent units) under a major U.S. customer order that was planned to commence the last week of July 2009, had been deferred indefinitely as a result of delays in the customer receiving state funding. This deferral resulted in a reduction in the Company's planned production levels from approximately 50 EUs per week to an average of 36 EUs per week for the remainder of Fiscal 2009. This announcement was met with a Company-wide focused effort that began with adjusting the production schedule by starting many orders much earlier while ensuring the completion of the delivery of the last buses relating to the design deficiency. The adjustments to the production schedule added risk and resulted in slightly higher work in process inventory ("WIP") levels.

The total order backlog (including firm orders and options) of approximately $3.85 billion (representing 8,990 equivalent units, including 1,800 equivalent units from the U.S. customer that had deferred their order due to delay in state funding) as at January 3, 2010 remained fairly stable compared to the total order backlog of approximately $3.86 billion (representing 8,949 equivalent units) as at October 4, 2009. The firm order backlog, which represents 2,082 equivalent units of production, has decreased slightly compared to the backlog at the end of Fiscal 2008 partially due to the increase in deliveries during Fiscal 2009. A portion of the firm orders specify when the deliveries must occur. The remaining firm orders do not contain limitations on deliveries and as such provides the Company with the order visibility to effectively plan the production schedule. New Flyer continues to monitor and promote the conversion of options to customers; and where not required by the transit authorities holding the options, we actively broker the options to other customers. Given the current market turmoil and uncertainty around state and local funding, management believes that option conversion rates may decline in 2010. Subsequent to the year-end order activity, New Flyer was awarded a bus procurement contract by a U.S. customer for options of up to 500 buses of varying lengths and propulsion systems; representing a minimum value of approximately $173.0 million should all buses be purchased.

Management confirms its initial estimate of the line entry target rates for the 52–week period ended January 2, 2011 ("Fiscal 2010"), in the range of approximately 40 to 42 EUs per week. To this point the market has not signaled demand that would require us to increase our line-entry rates. Management anticipates that smaller order sizes will impact work in process inventory ("WIP") levels during Fiscal 2010, as smaller orders will increase operating complexities. For example the number of EUs per order has decreased from 33 EUs per order in Fiscal 2008 to 20 EUs per order in Fiscal 2009. Management estimates that the current level of equivalent units in WIP will continue to vary in the range of 245 to 300 equivalent units due to order size and the nature of orders, while still being able to successfully manage the Company's working capital.

The Company's Operational Excellence ("OpEx") initiatives have contributed to the transformations already evident in the Company's facilities. These initiatives included; hiring of Kevin Wood, as the new Vice President of Manufacturing, the clean-up and standardization of approximately 70% of the Company's manufacturing cells in accordance with 5-S principles of Lean Manufacturing, the Company partnered with a new paint supplier to improve the efficiency and effectiveness of the supply and the application of the paint to buses on the production line, and the implementation of a freight optimization plan that facilitated the elimination of the central inventory warehouses at the Company's manufacturing facilities and the implementation of point of use supply of materials to the production line. As well, the Company's focused its emphasis on quality, by creating the position of Vice President, Quality and Continuous Improvement and hired Margaret Lewis to join New Flyer in that capacity.

Overcoming these challenges faced in Fiscal 2009 could only be accomplished on the strength of New Flyer employees. That is why management worked very hard in Fiscal 2009 on team building, improved internal communications, the promotion of Janice Harper to the newly-created position of Vice President of Human Resources and establishing best practices to continue to ensure New Flyer is a great place to work.

Corporate Strategy

In 2009, management undertook a review of New Flyer's corporate strategy based on an analysis of the needs of New Flyer's customers, results of researching the industry and the competition and the input obtained from the Company's employees. This review reinforced the business definition of New Flyer being the following:

The market leader in the heavy-duty transit bus industry in Canada and the United States. The Company may investigate doing business in export markets, either alone or in ventures with appropriate parties.

The Company's customers are both public transit agencies and private operators.

New Flyer will be positioned as a technology developer and integrator.

New Flyer is a provider of traditional aftermarket services such as parts sales, warranty work and training and will investigate providing other services such as aftermarket parts inventory management, fleet management, provision of maintenance programs and developing and delivering product reliability services. New Flyer specializes in selling New Flyer–branded "Kinetik" parts and other supplier's parts in the aftermarket.

A new mission statement was created and the Company updated its strategy of how New Flyer's business should operate and grow.

Mission Statement

From the strategic review process, the Company created the following new mission statement – "To deliver the best bus value and support for life."

Industry overview

Heavy-duty transit buses are the backbone of intra-city urban public transportation systems throughout the United States and Canada. They consist of vehicles that are generally between 30 and 60 feet in length in high and low floor configurations with seating capacity for up to 65 passengers. These buses operate in arduous stop and go conditions, often for up to 16 hours a day, seven days a week. Heavy-duty transit buses use a variety of propulsion systems in addition to diesel, including diesel electric or gasoline electric hybrid systems, compressed natural gas ("CNG") or liquid natural gas ("LNG") systems, zero emission electric trolleys, and most recently hydrogen fuel cell. Municipal and other local transit authorities are the principal purchasers of heavy-duty transit buses.

The broader heavy-duty bus manufacturing industry includes transit buses and inter-city motor coaches. The Company currently does not manufacture motor coaches. Well-established United States federal funding programs, fleet replacement requirements and municipalities with long-term mass transit needs result in stable and predictable demand for transit buses. Management projects that demand over the next 5 years will remain in the range of 5,500 to 6,000 heavy-duty transit buses per year, based on current demand in United States and Canada.

The United States federal government has provided funding for the purchase of new heavy-duty transit buses since 1964. Purchases are now largely funded through Federal Transit Administration ("FTA") funding allocations derived from gasoline taxes. Under these programs, municipal and local transit authorities in the United States receive 80% of the funding for new bus purchases from the federal government for (i) the replacement of buses that have operated for at least 12 years or 500,000 miles, and (ii) new buses to support fleet growth based on population and ridership trends. In order to receive federal funding for new bus purchases, a minimum 20% contribution commitment from local transit authorities must be in place and the new bus purchase must comply with "Buy-America" legislation.

Federal funding for public transit in the United States is provided under surface transportation legislation covering highway, air, rail and marine transport. This legislation is passed in six-year cycles. The most recent legislation that provided funding for public transit in the amount of approximately $53.0 billion expired on September 30, 2009. The Hiring Incentives to Restore Employment Act (HIRE) that was passed into law on March 18, 2010 extends funding under the legislation until December 31, 2010. Management estimates that approximately $2.0 billion of this FTA funding is required each year to support current levels of industry purchases of new heavy-duty transit buses.

United States funding in 2009 for transit as a whole, was at a record high of $18.4 billion ($10.0 billion in FTA funding and $8.4 billion under the America Recovery and Reinvestment Act of 2009 ("ARRA")).

In addition to federal funding, the state and local governments face difficult funding issues during the economic downturn as bus transit ridership in the U.S. has dropped 5.2% for the year 2009, a decrease from the 52-year modern ridership record that was set in 2008. Given last year's economic hardship in the U.S., this decrease in ridership from a record number of ridership trips in 2008, indicates that support for public transit remains strong considering that nearly 60 percent of riders take public transportation to commute to and from work, it is not surprising that ridership declined in light of the many Americans who lost their jobs last year. This decrease has led to a drop in fare box revenue. Also, state and local tax revenues have decreased. This has led a number of transit agencies to raise fares, cut service and lay off employees. The ARRA allowed transit agencies to use up to 10% of their ARRA grants to fund operating expenses.

While there are risks associated with the industry's current funding issues, there are also positive trends that are expected to drive a long-term view of ridership growth due to: the aging population, the growing acceptance of the efficiency of bus rapid transit, the increasing expansion of urban and suburban areas and the demand for investment in new propulsion technologies driven by environmental concerns.

As evidence of continued expected demand, there are approximately 12,400 EUs, in New Flyer's new potential order pipeline or bid universe for heavy-duty transit buses as of March 18, 2010, an increase from the approximately 12,300 EUs reported as of November 5, 2009. New Flyer's new potential order pipeline includes: bids that have been submitted, bids currently in process of completion as a result of a tender, and anticipated bid activity to the end of the year based on management's understanding of transit customers' fleet procurement plans. Management is not able to predict at this stage how many bids will result in awarded orders.

Aftermarket parts and support have become increasingly important to transit authorities in their purchase decisions. The increasing complexity of the technologies of transit buses, combined with transit authorities' increasingly constrained operating budgets and high bus utilization levels, have in the past driven demand for aftermarket parts and support. However, transit authorities have begun to face shrinking operating budgets forcing some to reduce their parts inventory, source out new less expensive parts and develop new ways to operate more efficiently. As transit authorities hold minimum levels of inventory, the shipping response time becomes ever so critical in order to keep the buses in service. Opportunities also exist in the area of newer services such as: on-site parts and support solutions, inventory management services and expanded offerings. Given the Company's position in the industry, and the current general drive for cost reduction in the areas of bus maintenance, New Flyer is well-positioned to maximize the opportunities to provide life cycle support services to the transit industry.

Fiscal 2009 Financial Results

The Company achieved consolidated revenue of $249.4 million for the 13-week period ended January 3, 2010 ("2009 Q4") driven primarily by increased average selling price per equivalent unit and continued strong aftermarket operations. This achievement represents an increase of 12.7% compared to consolidated revenue for the 13-week period ended December 28, 2008 ("2008 Q4") of $221.3 million. Bus manufacturing revenue in 2009 Q4 of $223.1 million increased by 12.2% compared to bus manufacturing revenue of $198.9 million in 2008 Q4, primarily resulting from an increase in average selling price per equivalent unit. In 2009 Q4 the average selling price of an equivalent unit was $455.3 thousand compared to $404.3 thousand in 2008 Q4, representing an increase of 12.6%.

This increase is attributable to favourable product sales mix when comparing average selling price in the current period to 2008 Q4, primarily due to increased sales of hybrid buses and the Company's hydrogen fuel cell buses purchased by BC Transit and used during the Vancouver Winter Olympic Games. A normalized average selling price without hydrogen fuel cell buses would have been $425.0 thousand per equivalent unit during 2009 Q4. Total bus deliveries of 490 equivalent units in 2009 Q4 remained at a consistent level when compared to 2008 Q4 deliveries of 492 equivalent units. Total deliveries in 2009 Q4 included 74 equivalent units related to a significant customer contract containing certain design deficiencies, as disclosed in the Company's December 28, 2008 MD&A. All of the 225 equivalent units related to this customer's contracts have been delivered. Another contributing factor of the overall increase in consolidated revenue was 2009 Q4 aftermarket operations revenue of $26.3 million, which increased 17.3% in 2009 Q4 compared to $22.4 million in 2008 Q4. The continued strong growth in aftermarket operations is a result of approximately a 37% market share of the combined United States and Canadian heavy-duty transit bus industry based on deliveries in 2009. New Flyer's leading share of buses currently in service leads to valuable opportunities for repeat business as many transit authorities seek to standardize their fleets to minimize maintenance costs and through the provision of aftermarket parts and support. New Flyer maintains relationships with 248 transit authorities, including 20 of the 25 largest.

For Fiscal 2009, the Company's consolidated revenue of $1.1 billion increased by 14.4% compared to consolidated revenue for Fiscal 2008 of $961.3 million. Fiscal 2009 bus manufacturing revenue contributed to the majority of this increase as a result of higher delivery levels in Fiscal 2009 compared to Fiscal 2008. Bus manufacturing revenue during Fiscal 2009 totaled $991.7 million compared to $865.3 million in Fiscal 2008, representing an increase of 14.6%. Bus deliveries in Fiscal 2009 were 2,257 equivalent units, which represents an increase of 4.3% compared to Fiscal 2008 bus deliveries of 2,164 equivalent units. The increase in revenue was also favourably impacted by a price increase of 9.9%, as the average selling price of $439.4 thousand per equivalent unit during Fiscal 2009 increased from the average price per equivalent unit of $399.9 thousand during Fiscal 2008. This increase in average selling price is the result of changes in the product sales mix, which included more sales of hybrid and a unique contract for hydrogen fuel cell buses. Similar to the results for 2009 Q4, Fiscal 2009 aftermarket revenue of $108.2 million increased by 12.7% compared to Fiscal 2008 aftermarket revenue of $96.0 million, as a result of increased customer demand together with New Flyer's continued improvements in parts distribution programs. In an effort to fulfill the need for faster supply of parts, the Company has adopted a long-term strategy to explore the expansion of its warehousing and distribution capability so as to provide industry-leading response times to all of New Flyer's customers in Canada and the United States. As a result, a new parts distribution center was opened in the summer of 2008 in northern Kentucky, and a third parts distribution center was opened in 2009 on the west coast of the United States. This network of parts distribution centers at strategic locations has significantly improved response time and minimized transportation costs to serve New Flyer's customer base.

Consolidated Adjusted EBITDA for 2009 Q4 totaled $25.0 million compared to $16.8 million in 2008 Q4 which represents an increase of 48.9%. This increase in consolidated Adjusted EBITDA is primarily a result of higher average contract margins in the bus manufacturing operations sales mix (as 2008 Q4 was negatively affected by a significant depreciation of the Canadian dollar during that period) and continued Adjusted EBITDA growth of the Company's aftermarket operations during 2009 Q4, as compared to 2008 Q4. 2009 Q4 bus manufacturing operations Adjusted EBITDA of $18.9 million (8.3% of revenue) increased by 47.1% compared to bus manufacturing operations Adjusted EBITDA of $12.9 million (6.5% of revenue) in 2008 Q4. 2009 Q4 aftermarket operations Adjusted EBITDA of $6.1 million (23.0% of revenue) increased by 54.7% compared to $3.9 million (17.5% of revenue) in 2008 Q4, primarily due to increase in sales volume with higher profit margins in the current period, resulting from the negative foreign exchange impact in 2008 Q4.

Fiscal 2009 consolidated Adjusted EBITDA of $100.1 million increased 8.2% compared to Fiscal 2008 consolidated Adjusted EBITDA of $92.4 million. Bus manufacturing operations Adjusted EBITDA of $76.2 million for Fiscal 2009 increased 4.5% compared to $72.9 million for Fiscal 2008 bus manufacturing operations Adjusted EBITDA. This increase of $3.3 million is a result of $5.9 million due to increased volume of bus sales (4.3% increase in deliveries), $8.4 million due to a more favourable sales margin mix, offset by $4.7 million in increased infrastructure spending to support business growth, write down of approximately $4.5 million of inventory associated with rectification of certain bus contracts and a $1.8 million foreign exchange impact. Aftermarket operations Adjusted EBITDA for Fiscal 2009 of $23.8 million represents an increase of 21.8% over Fiscal 2008 aftermarket operations Adjusted EBITDA of $19.6 million.

The Company reported a net loss of $11.3 million in 2009 Q4 compared to net earnings of $53.8 million in 2008 Q4 was primarily due to the increase in non-cash charges and, to a lesser degree, an increase in income taxes and interest expense in the current period. In 2009 Q4, non-cash charges totaled $17.7 million compared to a recovery of non-cash charges included in 2008 Q4 earnings of $44.5 million. This change in non-cash items included in earnings related primarily to unrealized foreign exchange losses and fair value adjustments to assets and liabilities. Unrealized foreign exchange losses charged to earnings in 2009 Q4 were $8.4 million compared to a gain of $42.6 million in 2008 Q4 and relate to the translation of the Canadian dollar denominated Subordinated Notes, those forming part of an IDS and those issued separately from an IDS. Realization of these losses is dependent on the exchange rate on the maturity date (August 2020) of the Canadian dollar denominated Subordinated Notes. 2009 Q4 net loss also includes the fair value adjustments to other liabilities for Class B and Class C common shares resulting in a non-cash charge of $3.6 million in 2009 Q4 compared to a non-cash recovery of $7.2 million in 2008 Q4. Losses charged to earnings for the fair value adjustment to other liabilities for Class B and Class C common shares reflect the increase in the value of those shares, which has increased together with the market value of the IDSs during 2009 Q4. As well, interest expense increased $1.3 million in 2009 Q4 compared to 2008 Q4, due primarily to the increase in interest on the additional Subordinated Notes issued in connection with the September 2008 Offering and as a result of the distributions declared on the Class B and Class C common shares in 2009 Q4, which distributions had been temporarily deferred during 2008 Q4. The 2009 Q4 net loss was also impacted by an increase in income taxes of $9.8 million in 2009 Q4 as compared to 2008 Q4 partially resulting from an increase of $3.9 million in current taxes related to the reduced amount of foreign tax credits ("FTC") available to offset U.S. federal tax, and from an increase of $5.9 million in future taxes relating primarily to the foreign exchange impact of subsidiaries' foreign branch. The Company's net earnings (losses) can be subject to a high degree of volatility from fiscal period to fiscal period as a result of non-cash accounting adjustments.

Fiscal 2009 net loss of $30.4 million is a change in net earnings compared to Fiscal 2008 net earnings of $87.6 million, primarily as a result of an increase in non-cash charges of $64.3 million in Fiscal 2009 compared to non-cash recoveries of $52.5 million during Fiscal 2008. The increase in non-cash charges is primarily attributable to a fair value adjustment to other liabilities, Class B and Class C common shares, and unrealized foreign exchange losses. Fair value adjustments to other liabilities for Class B and Class C common shares resulted in a non-cash charge of $5.0 million in Fiscal 2009 compared to a non-cash recovery of $23.5 million in Fiscal 2008. Unrealized foreign exchange losses charged to earnings in Fiscal 2009 were $36.2 million, which is primarily a result of the Canadian dollar denominated Subordinated Notes that mature in 2020, compared to an unrealized gain of $52.0 million in Fiscal 2008. The Fiscal 2009 net loss was also impacted by an increase in income taxes of $8.4 million in Fiscal 2009 as compared to Fiscal 2008 for the same reason as listed above.

The Company generated Distributable Cash of C$18.1 million during 2009 Q4 and declared distributions of C$14.4 million, which represents a 2009 Q4 payout ratio of 79.5%. By comparison, in 2008 Q4, the Company generated Distributable Cash of C$15.5 million and declared distributions of C$14.4 million, resulting in a payout ratio of 92.7%. During Fiscal 2009, New Flyer generated Distributable Cash of C$79.1 million and declared distributions of C$57.6 million, representing a payout ratio of 72.8%. In comparison, Fiscal 2008 Distributable Cash and declared distributions were C$69.2 million and C$55.2 million, respectively, which represents a payout ratio of 79.7%. Cumulatively, since the Issuer's initial public offering on August 19, 2005 (the "IPO"), the Company has generated Distributable Cash of C$287.3 million and has declared distributions of $230.6 million, resulting in a cumulative surplus of C$56.7 million and a payout ratio of 80.3%.

The Company's liquidity position improved $21.3 million as at January 3, 2010 in comparison to the liquidity position at October 4, 2009. The January 3, 2010 liquidity position of $80.7 million is comprised of cash of $30.7 million and a $50.0 million secured revolving credit facility. As at January 3, 2010, there were no borrowings under this secured facility. Management believes that these funds will provide the Company with sufficient liquidity and capital resources to meet its current and future financial obligations as they come due, as well as provide funds for its financing requirements, capital expenditures and other needs for the foreseeable future.

Cash generated from operations before working capital during 2009 Q4 totaled $8.4 million and cash provided by the changes in working capital was $19.7 million, both of which contributed to the total cash from operations of $28.1 million in 2009 Q4. A main contributor of this cash inflow is the decrease in inventory of $20.7 million from the previous quarter primarily as a result of a 75 equivalent unit reduction in inventory levels from the 13-week period ended October 4, 2009 ("2009 Q3").

As a result of improved cash flow generated in 2009 Q4, the Company repaid in the 13-week period to end on April 4, 2010 ("2010 Q1") all outstanding inter-company loans that were used to support dividend payments by NFI on its common shares and New Flyer LLC has repaid all outstanding loans advanced by NFI in lieu of dividends on its Class B and Class C Shares.

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)
2009	Q4	$ 249,386	$ 19,249	$ (11,301)	$ 24,959	$ 24,959	(0.24)
	Q3	303,619	23,664	(9,190)	29,356	29,356	(0.19)
	Q2	273,512	17,423	(14,670)	22,682	22,682	(0.31)
	Q1	273,349	17,151	4,781	23,073	23,073	0.10
	Total	**$ 1,099,866**	**$ 77,487**	**$ (30,380)**	**$ 100,070**	**$ 100,070**	**(0.64)**
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)**

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

COMPARISON OF 2009 AND 2008 ANNUAL AND FOURTH QUARTER RESULTS

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

	13-Weeks Ended January 3, 2010	13-Weeks Ended December 28, 2008	53-weeks Ended January 3, 2010	52-weeks Ended December 28, 2008
Statement of Earnings Data				
Revenue				
Canada	$ 112,925	$ 26,394	$ 237,318	$ 178,634
U.S.	110,181	172,505	754,385	686,656
Bus manufacturing operations	223,106	198,899	991,703	865,290
Canada	9,373	6,661	35,127	31,842
U.S.	16,907	15,735	73,036	64,169
Aftermarket operations	26,280	22,396	108,163	96,011
Total revenue	$ 249,386	$ 221,295	$ 1,099,866	$ 961,301
Earnings from operations	$ 19,249	$ 10,807	$ 77,487	$ 68,647
Earnings before interest and income taxes	7,285	61,229	35,762	144,365
Net (loss) earnings	(11,301)	53,804	(30,380)	87,634
EBITDA(1)	24,959	16,809	100,070	93,203
Adjusted EBITDA(1)				
Bus manufacturing operations including realized foreign exchange losses/gains	18,907	12,855	76,222	72,869
Aftermarket operations	6,052	3,912	23,848	19,579
Total Adjusted EBITDA(1)	$ 24,959	$ 16,767	$ 100,070	$ 92,448
Other Data (unaudited)				
Canada	143	101	591	632
U.S.	347	391	1,666	1,532
Total deliveries (equivalent units)(2)	490	492	2,257	2,164
Total capital expenditures	$ 4,119	$ 2,057	$ 9,731	$ 8,414
New options awarded	$ 184,087	$ 773,077	$ 573,945	$ 1,747,233
New firm orders awarded	24,166	126,199	199,936	326,947
Exercised options	103,136	65,457	605,887	429,174
Total firm orders	$ 127,302	$ 191,656	$ 805,823	$ 756,121

(Unaudited, US dollars in thousands)	January 3, 2010		December 28, 2008		December 30, 2007	
Selected Balance Sheet Data						
Total assets	$ 869,889		$ 899,344		$ 907,249	
Long-term financial liabilities	544,028		415,814		694,749	
Other Data (unaudited)		Equivalent Units(2)		Equivalent Units(2)		Equivalent Units(2)
Firm orders - USA	$ 884,347	1,876	$ 1,012,099	2,196	$ 1,020,360	2,267
Firm orders – Canada	93,407	206	143,313	302	225,183	577
Total firm orders	977,754	2,082	1,155,412	2,498	1,245,543	2,844
Options – USA	2,653,326	6,365	2,625,454	6,164	1,282,483	3,241
Options - Canada	217,042	543	291,563	869	308,339	831
Total options	2,870,368	6,908	2,917,017	7,033	1,590,822	4,072
Total Backlog	$ 3,848,122	8,990	$ 4,072,429	9,531	$ 2,836,365	6,916

Equivalent Units in Backlog (unaudited)	53 Weeks Ended January 3, 2010		52 Weeks Ended December 28, 2008		52 Weeks Ended December 30, 2007	
	Firm orders	Options	Firm orders	Options	Firm orders	Options
Beginning of period	2,498	7,033	2,844	4,072	2,189	3,124
New orders	444	1,402	765	4,133	1,603	2,564
Options exercised	1,397	(1,397)	1,093	(1,093)	1,061	(1,061)
Shipments	(2,257)	—	(2,164)	—	(2,003)	—
Cancelled/expired	—	(130)	(40)	(79)	(6)	(555)
End of period	2,082	6,908	2,498	7,033	2,844	4,072

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

2010	851
2011	930
2012	1,607
2013	2,755
2014	765
Total options	6,908

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

RECONCILIATION OF NET EARNINGS TO EBITDA AND ADJUSTED EBITDA

Because the Company distributes substantially all of its cash on an ongoing basis, subject to certain restrictions, management believes that EBITDA and Adjusted EBITDA 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 January 3, 2010	13-Weeks Ended December 28, 2008	53-weeks Ended January 3, 2010	52-weeks Ended December 28, 2008
Net earnings (loss)	$ (11,301)	$ 53,804	$ (30,380)	$ 87,634
Addback[1]				
Income taxes	6,179	(3,633)	16,344	7,926
Interest expense	11,678	11,058	48,152	40,029
Amortization	5,710	6,045	22,619	25,173
Gain on disposal of property, plant and equipment	—	—	(231)	(30)
Non-cash impact of embedded derivative	—	(25)	(36)	(25)
Fair value adjustment to embedded derivatives	—	(699)	787	(699)
Fair value adjustment to other liabilities – Class B and Class C Common Shares	3,565	(7,166)	4,967	(23,546)
Distributions on Class B and Class C Common Shares	729	—	1,646	8,776
Unrealized foreign exchange loss (gain) on non-current monetary items and forward foreign exchange contracts	8,399	(42,575)	36,202	(52,035)
EBITDA[2]	24,959	16,809	100,070	93,203
Follow-on Offerings related costs [3]	—	18	—	592
Fair market value adjustment to accounts payables and accrued liabilities[4]	—	(60)	—	(1,347)
Adjusted EBITDA (US$) [2]	$ 24,959	$ 16,767	$ 100,070	$ 92,448
Adjusted EBITDA translated to C$ at an average foreign exchange rate[6]	$ 26,764	$ 20,997	$ 113,159	$ 97,970

RECONCILIATION OF CASH FLOW TO EBITDA AND ADJUSTED EBITDA

(Unaudited, US dollars in thousands)	13-Weeks Ended January 3, 2010	13-Weeks Ended December 28, 2008	53-weeks Ended January 3, 2010	52-weeks Ended December 28, 2008
Cash (used in) provided by operations	$ 28,146	$ 36,188	$ 25,819	$ 27,823
Addback[1]				
Changes in non-cash working capital items	(19,741)	(29,572)	11,299	4,599
Defined benefit funding	1,369	774	3,598	2,545
Defined benefit expense	(264)	(368)	(1,278)	(1,583)
Interest expense	11,848	10,987	46,986	41,097
Distributions on Class B and Class C Shares	729	—	1,646	8,776
Foreign exchange (loss) gain on cash held in foreign currency	(234)	(441)	148	(333)
Current income taxes[5]	3,106	(759)	11,852	10,279
EBITDA[2]	24,959	16,809	100,070	93,203
Follow-on Offerings related costs [3]	—	18	—	592
Fair market value adjustment to accounts payables and accrued liabilities[4]	—	(60)	—	(1,347)
Adjusted EBITDA (US$) [2]	$ 24,959	$ 16,767	$ 100,070	$ 92,448
Adjusted EBITDA translated to C$ at an average foreign exchange rate[6]	$ 26,764	$ 20,997	$ 113,159	$ 97,970

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) Normalized to exclude non-recurring expenses related to the Follow-on Offerings.

(4) 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.

(5) 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 FTCs that may be available to apply against U.S. federal income taxes. As a result, income subject to U.S. tax can be taxed at a substantially lower rate than income subject to Canadian tax.

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

SUMMARY OF DISTRIBUTABLE CASH

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 January 3, 2010	13-Weeks Ended December 28, 2008	53-Weeks Ended January 3, 2010	52-Weeks Ended December 28, 2008	Cumulative since IPO on August 19, 2005
Cash (used in) provided by operations	$ 28,146	$ 36,188	$ 25,819	$ 27,823	$ 38,452
Changes in non-cash working capital items[6]	(19,741)	(29,572)	11,299	4,599	40,634
Capital adjustments					
Maintenance capital expenditures[7]	(1,115)	(1,260)	(2,548)	(2,552)	(8,241)
Principal portion of capital lease payments	(474)	(393)	(1,679)	(1,427)	(4,958)
Non-recurring adjustments					
Follow-on Offerings related costs	—	18	—	592	963
Proceeds from sale of redundant assets	—	—	342	30	724
Fair market value adjustment to deferred revenue[14]	—	—	—	—	(799)
Fair market value adjustment to accounts payables and accrued liabilities[15]	—	(60)	—	(1,347)	(1,900)
Fair market value adjustment to inventory[8]	—	—	—	—	18,065
Fair market value adjustment to prepaid expenses[9]	—	—	—	—	347
Withholding taxes[10]	—	—	—	—	9,111
Entity specific adjustments					
Distributions on Class B and Class C Shares[11]	729	—	1,646	8,776	63,474
Interest on Subordinated Notes forming part of IDSs[11]	8,484	7,516	32,647	28,033	97,165
Defined benefit funding[12]	1,369	774	3,598	2,545	13,163
Defined benefit expense[12]	(264)	(368)	(1,278)	(1,583)	(6,739)
Foreign exchange gain on cash held in foreign currency[13]	(234)	(441)	148	(333)	1,453
Distributable Cash (US$)[1]	16,900	12,402	69,994	65,156	260,914
U.S. exchange rate[2]	1.0723	1.2523	1.1298	1.0616	1.1011
Distributable Cash[1] (C$)	**18,122**	**15,531**	**79,079**	**69,171**	**287,288**
Distributable Cash per unit[17] (C$)	0.36	0.31	1.59	1.33	5.60
Summary of Cash Distributions:[3]					
Interest on Subordinated Notes forming part of IDSs (C$)	9,159	9,159	36,636	30,222	107,171
Dividends on Common Shares forming part of IDSs (C$)	4,683	4,683	18,732	15,450	52,326
Dividends on Class C Shares (C$)[16]	644	—	1,567	8,627	68,177
Dividends on Class B Shares (C$)[16]	145	—	354	1,551	6,989
Net loan (repaid from) advanced to New Flyer LLC (C$)[16]	(230)	559	315	559	874
Foreign currency impact on Class B and C dividends (C$)[4]	—	—	—	(1,259)	(4,956)
Total Cash Distributions (C$)	**14,401**	**14,401**	**57,604**	**55,150**	**230,581**
Total Cash Distributions per unit[17] (C$)	0.29	0.29	1.16	1.06	4.50
Excess of Distributable Cash (C$)	**3,721**	**1,130**	**21,475**	**14,021**	**56,707**
Excess of Distributable Cash per unit[17] (C$)	$ 0.07	$ 0.02	$ 0.43	$ 0.27	$ 1.10
Payout ratio	79.5%	92.7%	72.8%	79.7%	80.3%

Since the IPO, 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 has maintained the level of distributions since the third fiscal quarter of 2007. 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 January 3, 2010	13-Weeks Ended December 28, 2008	53-Weeks Ended January 3, 2010	52-Weeks Ended December 28, 2008	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	3.3828
Dividends on Common Shares (C$)	0.0989	0.0989	0.3956	0.3956	1.6049
Total Distribution per IDS (C$)(3)	0.2925	0.2925	1.1700	1.1700	4.9877
Issued and outstanding IDSs(5)	47,323,100	47,323,100	47,323,100	38,685,420	31,306,322
Dividends per Class C Share (C$):(3)					
Preferential Dividend (C$)(16)	0.1665	—	0.4183	0.3687	1.9513
Residual Dividend (C$)(16)	0.1470	—	0.3448	0.2967	1.4552
Total Cash Dividend (C$)(16)	0.3135	—	0.7631	0.6654	3.4065
Issued and outstanding Class C Shares(5)	2,053,657	2,053,657	2,053,657	10,630,562	18,119,995
Dividends per Class B Share (C$):(3)					
Preferential Dividend (C$)(16)	0.1665	—	0.4183	0.3687	1.9513
Residual Dividend (C$)(16)	0.1470	—	0.3448	0.2967	1.4552
Total Cash Dividend (C$)(16)	0.3135	—	0.7631	0.6654	3.4065
Issued and outstanding Class B Shares(5)	463,875	463,875	463,875	2,528,594	1,872,879
Total of all issued and outstanding Shares including IDSs(5)	49,840,632	49,840,632	49,840,632	51,844,576	51,299,196

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 January 3, 2010	53-Weeks Ended January 3, 2010	Fiscal 2008	Fiscal 2007
A. Cash flows from operating activities (excluding interest on Subordinated Notes forming part of IDSs and distributions on Class B and Class C Shares)	$ 37,359	$ 60,112	$ 64,632	$ 72,465
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)	17,618	71,411	69,231	54,448
C. Net (loss) earnings (excluding interest on Subordinated Notes forming part of IDSs and distributions on Class B and Class C Shares)	(2,088)	3,913	124,443	(96,808)
D. Earnings from operations (excluding interest on Subordinated Notes forming part of IDSs and distributions on Class B and Class C Shares)	19,249	77,487	68,647	69,025
E. Distributable Cash	16,900	69,994	65,156	62,138
F. Actual cash distributions paid or payable relating to the period	13,430	50,986	51,949	47,860
G. Excess of cash flows from operating activities (adjusted as described above) over cash distributions paid (A – F)	23,929	9,126	12,683	24,605
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)	4,188	20,425	17,282	6,588
I. (Shortfall) excess of net (loss) earnings (adjusted as described above) over cash distributions paid (C – F)	(15,518)	(47,073)	72,494	(144,668)
J Excess of earnings from operations (adjusted as described above) over cash distributions paid (D – F)	5,819	26,501	16,698	21,165
K. Excess of Distributable Cash over cash distributions paid (E – F)	3,470	19,008	13,207	14,278

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, cash flows from operating activities are significantly impacted by changes in non-cash working capital, and the Company periodically draws on its revolving credit facility to finance such working capital requirements. Net loss figures for 2009 Q4, Fiscal 2009 and the net loss for the 52-week period ended December 30, 2007 ("Fiscal 2007") are due to the impact of the significant 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".

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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" above.

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

(3) The Issuer declared distributions of C$1.17 per IDS cumulatively for Fiscal 2009. Distributions on IDSs are paid on or before the 15th day of each month (or the next business day if such day is not a business day) 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. Certain current and former members of management, through New Flyer LLC and, prior to the September 2008 Offering, New Flyer Transit L.P., hold all of the issued and outstanding Class B and Class C Shares of NFL Holdings. Dividends were declared on Class A, Class B and Class C Shares during 2009 Q4 and certain inter-

company loans were also 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. See “Related Party Transactions”.

(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 Shares and Class C Shares 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 $50.0 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 the 52-week period ended December 31, 2006 (“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) Beginning in 2008 Q4; New Flyer implemented a procedure 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. The inter-company loans are used when regular dividends payable by NFL Holdings on the Class A, Class B and Class C common shares have been deferred so as to remain in compliance with the note indenture. See “Related Party Transactions”. During 2009 Q4, NFI received a repayment from New Flyer LLC of C$789, in respect of loans made in prior periods when dividends had been deferred,

and also advanced C$559 to New Flyer LLC, an amount equivalent to the dividends that would have been declared on its Class B and Class C Shares during 2009 Q4 but were deferred.

(17) 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. The Company's Adjusted EBITDA (which is reported in U.S. dollars) is also exposed to foreign currency fluctuations between reporting periods. If the Canadian dollar exchange rate depreciates, then the related Adjusted EBITDA that is generated in Canadian dollars would be materially adversely affected as compared to the level determined with the prevailing exchange rate during the comparable 2009 reporting period. 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 Separate Subordinated Notes, current income taxes and distributions on Class B and Class C shares. For that reason management has made a conscious strategy to mitigate foreign currency exposure based on net cash flow rather than Adjusted EBITDA.

As at January 3, 2010, 9.6% of the Company's firm order backlog consisted of orders representing Canadian dollar-denominated revenue. Based on this current backlog position and the Company's historically stable Canadian dollar-denominated operating costs, management expects the Company to generate a net Canadian dollar cash outflow during 2010 as a result of the higher percentage of U.S. dollar denominated orders in the Company's backlog. The change in Canadian dollar cash outflow exposure will be matched with an increase in foreign exchange forward contracts activity.

During Fiscal 2009 the Company entered into forward contracts to sell $84.5 million Canadian dollars in exchange for United States dollars at a weighted average agreed exchange rate of $1.1007, as compared to Fiscal 2008 when the Company purchased forward contracts to sell $30.0 million Canadian dollars in exchange for United States dollars at a weighted average agreed exchange rate of $0.9933. The settlements of the forward contracts were recorded as realized foreign exchange losses or gains in net earnings for the reported period. 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 may be gains or losses reported in any given reporting periods. During Fiscal 2009 the realized foreign exchange loss included the "zero cost collar" foreign exchange option that was settled at a loss of $1.2 million on September 15, 2009, which is offset by the foreign currency margin gains due to a stronger Canadian dollar impact from Canadian dollar sales contracts.

At January 3, 2010, the Company had $27.5 million Canadian dollar foreign exchange forward contracts at a weighted average agreed exchange rate of $1.0681 that will have expired in February and March 2010. The related asset of $0.4 million is recorded on the balance sheet as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts has been recorded in the consolidated statements of operations. In comparison there were no open forward contracts at December 28, 2008.

Fiscal and Interim Periods

The Company's 2009 fiscal period is divided in quarters. The following table summarizes the number of weeks in the fiscal and interim periods presented for the Company:

	Period from December 29, 2008 to January 3, 2010 (Fiscal 2009)		**Period from December 31, 2007 to December 28, 2008 (Fiscal 2008)**	
	Period End Date	# of Weeks	Period End Date	# of Weeks
Quarter 1	April 5, 2009	14	March 30, 2008	13
Quarter 2	July 5, 2009	13	June 29, 2008	13
Quarter 3	October 4, 2009	13	September 28, 2008	13
Quarter 4	January 3, 2010	13	December 28, 2008	13
Fiscal year	January 3, 2010	53	December 28, 2008	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)	**2009 Q4 (13-Weeks)**	**2008 Q4 (13-Weeks)**	**Fiscal 2009 (53-Weeks)**	**Fiscal 2008 (52-Weeks)**
Bus Manufacturing Revenue	$ 223,106	$ 198,899	$ 991,703	$ 865,290
Aftermarket Revenue	26,280	22,396	108,163	96,011
Total Revenue	$ 249,386	$ 221,295	$ 1,099,866	$ 961,301
Earnings from operations	19,249	10,807	77,487	68,647
Earnings before interest and income taxes	7,285	61,229	35,762	144,365
(Loss) earnings before income taxes	(5,122)	50,171	(14,036)	95,560
Net (loss) earnings for the period	(11,301)	53,804	(30,380)	87,634

Revenue

The consolidated revenue for 2009 Q4 of $249.4 million increased 12.7% from the consolidated revenue for 2008 Q4 of $221.3 million, and the consolidated revenue for Fiscal 2009 of $1.1 billion increased 14.4% from the consolidated revenue for Fiscal 2008 of $961.3 million.

Revenue from bus manufacturing operations for 2009 Q4 was $223.1 million, an increase of 12.2% from $198.9 million in 2008 Q4, and revenue of $991.7 million for Fiscal 2009 increased 14.6% from $865.3 million for Fiscal 2008. This increase primarily resulted from increase in the average bus selling price during 2009 Q4, as the number of deliveries was similar in 2009 Q4 compared to 2008 Q4. The increase in average bus selling price is attributed to a mix of products sold with a higher selling price, primarily hybrid buses and including the Company's hydrogen fuel cell buses purchased by BC Transit and used during the Vancouver Winter Olympic Games. Total bus deliveries of 490 equivalent units in 2009 Q4 remained at a consistent level when compared to 2008 Q4 deliveries of 492 equivalent units. Total deliveries in 2009 Q4 included 74 equivalent units related to a significant customer contract containing certain design deficiencies, as disclosed in the Company's December 28, 2008 MD&A. All of the 225 equivalent units related to this customer's contracts have been delivered. Bus deliveries in Fiscal 2009 totaled 2,257 equivalent units and increased 4.3% as compared to 2,164 equivalent units in Fiscal 2008. The increase in revenue was also favourably impacted by a price increase of 9.9% as the average selling price of $439.4 thousand per equivalent unit during Fiscal 2009 increased from the average price per equivalent unit of $399.9 thousand during Fiscal 2008. This increase in average selling price is the result of changes in the product sales mix, which included more sales of hybrid and a unique contract for hydrogen fuel cell buses. A normalized average selling price without hydrogen fuel cell buses would have been $432.3 thousand per equivalent unit during Fiscal 2009.

The revenue from aftermarket operations in 2009 Q4 was $26.3 million compared to $22.4 million in 2008 Q4, which represents growth of 17.3%, while the aftermarket operations revenue in Fiscal 2009 of $108.2 million increased 12.7% compared to $96.0 million in Fiscal 2008. This increase highlights the continued growth of aftermarket operations as New Flyer buses represent approximately 23% share of the active installed fleet in the combined United States and Canadian market together with New Flyer's continued improvement in distribution. In an effort to fulfill the need for faster supply of parts, the Company has adopted a long-term strategy to explore the expansion of its warehousing and distribution capability so as to provide industry-leading response times to all of New Flyer's customers in Canada and the United States. As a result, a new parts distribution center was opened in the summer of 2008 in northern Kentucky, and a third parts distribution center was opened in 2009 on the west coast of the United States. This network of parts distribution centers at strategic locations has significantly improved response time and minimized transportation costs to serve New Flyer's customer base.

Cost of sales

The consolidated cost of sales for 2009 Q4 of $211.8 million increased by 10.2% from 2008 Q4 consolidated cost of sales of $192.1 million. Fiscal 2009 consolidated cost of sales of $953.1 million increased by 16.1% from Fiscal 2008 of $820.8 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 2009 Q4 were $193.8 million compared to $175.6 million in 2008 Q4, an increase of 10.4%. The cost of sales from bus manufacturing operations for Fiscal 2009 was $877.5 million as compared to $752.6 million in Fiscal 2008, an increase of 16.6%. The increase in cost of sales for 2009 Q4 compared to 2008 Q4 primarily relates to the revenue growth that occurred between periods. The increase in costs of sales for Fiscal 2009 compared to Fiscal 2008 is a result of increased annual deliveries and higher manufacturing costs per equivalent unit caused by the increase in hybrid and hydrogen fuel cell bus deliveries (discussed in the revenue section of this MD&A), increased infrastructure spending to support business growth and a write down of approximately $4.5 million of inventory associated with rectification of certain bus contracts.

The cost of sales from aftermarket operations were $18.0 million in 2009 Q4 compared to $16.5 million in 2008 Q4, representing an increase of 8.9%. The Company experienced unusually higher costs in 2008 Q4 due to the significant depreciation of the Canadian dollar which results in a lower cost of sales increase in 2009 Q4 compared to the related revenue increase. However, the cost of sales in Fiscal 2009 of $75.6 million which increased 10.8% compared to $68.2 million in Fiscal 2008 primarily due to the revenue growth between periods.

Selling, general and administrative costs and other expenses

The consolidated selling, general and administrative costs and other expenses for 2009 Q4 of $11.1 million increased 2.7% compared with $10.8 million in 2008 Q4. Consolidated selling, general and administrative costs and other expenses for Fiscal 2009 were $44.1 million which decreased by 3.8% compared with $45.8 million in Fiscal 2008. The decrease is primarily a result of a lower average Canadian dollar compared to the U.S. dollar when comparing the two fiscal periods, as general and administration costs are typically Canadian dollar denominated expenses.

Amortization

Amortization of $5.7 million has been charged to earnings in 2009 Q4 as compared with $6.0 million in 2008 Q4. The amortization charges for Fiscal 2009 were $22.6 million as compared with $25.2 million in Fiscal 2008.

Realized foreign exchange loss (gain)

In 2009 Q4, the Company recognized a net realized loss of $1.5 million compared with a net realized loss of $1.5 million in 2008 Q4. In Fiscal 2009 the Company recognized a net realized loss of $2.6 million as compared with a net realized loss of $0.8 million in Fiscal 2008. The increase in realized foreign exchange loss is primarily due to the $1.2 million loss on settlement of the foreign exchange contracts related to the "zero cost collar" strategy during 2009 Q3, which is offset by the foreign currency margin gains due to a stronger Canadian dollar impact from Canadian dollar sales contracts.

Earnings from operations

The consolidated earnings from operations for 2009 Q4 in the amount of $19.2 million (7.7% of revenue) increased 78.1% compared to earnings from operations in 2008 Q4 of $10.8 million (4.9% of revenue). In Fiscal 2009 the consolidated earnings from operations of $77.5 million (7.0% of revenue) increased 12.9% compared to $68.6 million (7.1% of revenue) in Fiscal 2008.

The earnings from bus manufacturing operations for 2009 Q4 were $20.4 million compared to earnings of $14.4 million for 2008 Q4 (9.2% and 7.3%, respectively, of bus manufacturing revenue). The increase in earnings during 2009 Q4 is a result of higher margins due to sales mix. In Fiscal 2009 the earnings from bus manufacturing operations were $78.8 million (7.9% of revenue) as compared to $75.0 million (8.7% of revenue) in Fiscal 2008, and reflects a lower relative increase in earnings from operations due to the higher cost of sales during Fiscal 2009.

The earnings from aftermarket operations of $6.1 million in 2009 Q4 increased by 54.7% compared to 2008 Q4 earnings of $3.9 million. 2009 Q4 operations margin of 23.0% increased as compared to 17.5% in 2008 Q4. The increase is a result of lower 2008 Q4 margins realized due to the impact of a rapidly depreciating Canadian dollar. In Fiscal 2009 the earnings from aftermarket operations were $23.8 million (22.0% of revenue), which represents a 21.8% increase as compared to $19.6 million (20.4% of revenue) in Fiscal 2008.

The consolidated earnings from operations in 2009 Q4 have been negatively impacted by $7.2 million in unallocated items compared with $7.5 million in 2008 Q4. Unallocated items in earnings from operations are comprised primarily of amortization and realized foreign exchange losses. The unallocated charges in Fiscal 2009 were $25.1 million as compared with unallocated charges of $26.0 million in Fiscal 2008.

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 2009 Q4 the Company recognized a net unrealized loss of $8.4 million compared to a net unrealized gain of $42.6 million in 2008 Q4. During Fiscal 2009 the Company recognized a net unrealized loss of $36.2 million compared to a net unrealized gain of $52.0 million in Fiscal 2008. These results consist of the following:

(Unaudited, US dollars in thousands)	2009 Q4	2008 Q4	Fiscal 2009	Fiscal 2008
Unrealized loss (gain) on Canadian–denominated long-term debt	$ 8,389	$ (42,785)	$ 37,713	$ (51,846)
Unrealized (gain) loss on forward foreign exchanges contracts	(44)	46	(420)	—
Unrealized loss (gain) on other non-monetary assets/liabilities	54	164	(1,091)	(189)
	$ 8,399	$ (42,575)	$ 36,202	$ (52,035)

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

In 2009 Q4 the Company recorded earnings before interest and income taxes of $7.3 million compared to earnings before interest and income taxes of $61.2 million in 2008 Q4. The Company recorded earnings before interest and income taxes of $35.8 million in Fiscal 2009 compared to earnings before interest and income taxes of $144.4 million in Fiscal 2008. Earnings before interest and income taxes have been impacted by non-cash items as follows:

(Unaudited, US dollars in thousands)	2009 Q4	2008 Q4	Fiscal 2009	Fiscal 2008
Non-cash charges (recovery):				
Fair value adjustment to other liabilities, Class B and Class C common shares	$ 3,565	$ (7,166)	$ 4,967	$ (23,546)
Fair value adjustment to embedded derivatives	—	(699)	787	(699)
Fair value adjustment to accounts payable and accrued liabilities	—	(60)	—	(1,347)
Non-cash impact of embedded derivatives	—	(25)	(36)	(25)
Unrealized foreign exchange loss (gain)	8,399	(42,575)	36,202	(52,035)
Gain on disposition of property, plant and equipment	—	—	(231)	(30)
Amortization	5,710	6,045	22,619	25,173
Total non-cash charges (recovery):	$ 17,674	$ (44,480)	$ 64,308	$ (52,509)

One of the most significant non-cash charges/recoveries is the unrealized foreign exchange gain (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, the 2009 Q4 EBIT would have been $25.0 million compared to $16.7 million in 2008 Q4, and $100.1 million in Fiscal 2009 compared to $91.9 million in Fiscal 2008.

Interest expense (including distributions on Class B and Class C common shares)

The interest expense for 2009 Q4 totaled $12.4 million compared to $11.1 million in 2008 Q4, and $49.8 million in Fiscal 2009 as compared to $48.8 million in Fiscal 2008. Interest expense increased $1.3 million in 2009 Q4 compared to 2008 Q4, due primarily to the increase in interest on the additional Subordinated Notes issued in connection with the September 2008 Offering and the distributions declared on the Class B and Class C common shares in 2009 Q4, which distributions had been temporarily deferred during 2008 Q4. Whereas, interest expense increased $1.0 million in Fiscal 2009 compared to Fiscal 2008, due primarily to the issuance of additional Subordinated Notes in connection with the 2008 Offerings, increase in fair value of the interest rate swap and the increase in other interest and bank charges which primarily resulted from the inventory buildup that began at the end of Fiscal 2008 resulting in the utilization of the revolving credit facility. This increase in interest expense in Fiscal 2009 was offset by the impact of fewer distributions on the Class B and Class C common shares that were redeemed using the net proceeds of the September 2008 Offering.

(Loss) earnings before income taxes (EBT)

Loss before income taxes for 2009 Q4 was $5.1 million compared to earnings before income taxes of $50.2 million in 2008 Q4 and loss before income taxes for Fiscal 2009 was $14.0 million compared to EBT of $95.6 million in Fiscal 2008. The decrease in EBT between these periods, results from the non-cash charges (recovery) as described in the preceding table, which offsets the increase in $8.8 million of earnings from operations in Fiscal 2009 compared to Fiscal 2008. The most significant non-cash charge is the unrealized foreign exchange gains (losses) and fair value adjustment to other liabilities, Class B and Class C common shares. These fair value adjustments are non-cash items.

Income taxes

The income tax expense for 2009 Q4 was $6.2 million, an increase of $9.8 million in comparison to income tax recovered of $3.6 million in 2008 Q4, partially resulting from an increase of $3.9 million in current taxes related to increased earnings from operations and the reduced amount of FTCs available to offset U.S. Federal tax, and from an increase of $5.9 million in future taxes also relating to the reduction of the FTC pool. Similarly, the income tax expense for Fiscal 2009 of $16.3 million increased $8.4 million compared to the income tax expense of $7.9 million in Fiscal 2008. When comparing the two fiscal periods, the current income taxes increased by $1.6 million and future income taxes increased $6.8 million in Fiscal 2009. Current income taxes increased primarily due to jurisdictional mix of earnings that triggered a FTC limitation which restricts the FTCs available to offset U.S. federal income taxes otherwise payable, resulting in a reduction of future tax expense and an increase to current tax expense. Future taxes increased primarily due to the foreign exchange impact of subsidiaries' foreign branch.

Current income taxes are comprised of Canadian federal and provincial corporate income taxes, withholding taxes and U.S. federal and state income 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.

Net (loss) earnings

The Company reported a net loss of $11.3 million in 2009 Q4 compared to net earnings of $53.8 million in 2008 Q4. The decrease in earnings in 2009 Q4 is primarily attributable to non-cash charges to earnings as noted above. Similarly, Fiscal 2009 net loss of $30.4 million compares to Fiscal 2008 net earnings of $87.6 million. The decrease in net earnings for Fiscal 2009 is primarily attributable to non-cash charges to earnings and increased income taxes as noted above which offset the increase in earnings from operations. The Company's net earnings (losses) can be subject to a high degree of volatility from fiscal period to fiscal period as a result of non-cash accounting adjustments.

Liquidity and Capital Resources

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

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

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

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

During 2009 Q4 the Company reduced its investment in working capital by $19.7 million which was the primary contributor to the $21.3 million increase in the Company's cash in 2009 Q4. Whereas, during Fiscal 2009 the Company generated a net cash operating inflow of $25.8 million as a result of $37.1 million of net cash earnings offset by an increase of $11.3 million in working capital. The cash balance at January 3, 2010 was $30.7 million, which is the same cash balance at December 28, 2008. The Company's liquidity position as at January 3, 2010 totaled $80.7 million, consisting of cash of $30.7 million and the $50.0 million revolving credit facility, under which there were no borrowings at January 3, 2010.

Management currently believes that, based on its financial position and liquidity profile at January 3, 2010, the Company will be able to satisfy its current and long-term obligations.

The Company generated an excess of Distributable Cash of C$3.7 million during 2009 Q4 compared to an excess of C$1.1 million in Distributable Cash for 2008 Q4, and excess of Distributable Cash of C$21.5 million for Fiscal 2009 as compared to C$14.0 million for Fiscal 2008. The Company has achieved a cumulative excess of Distributable Cash of C$56.7 million since the IPO.

On April 24, 2009, NFI ULC and New Flyer of America Inc. ("NFAI") entered into an amended and restated senior credit facility with a syndicate of financial institutions (the "Credit Facility"). The Credit Facility matures in April, 2012 and replaces the previous credit facility entered into by NFI ULC and NFAI on August 19, 2005.

As at January 3, 2010, the Company was in compliance in all material respects with the financial covenants in its Credit Facility. All of the Company's financial covenant tests improved from 2009 Q3 as a result of increased earnings in 2009 Q4 (as compared to 2008 Q4).

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

(Unaudited)	January 3, 2010	October 4, 2009	December 28, 2008
Senior Leverage Ratio (must be less than 2.25)	0.67	0.93	1.04
Total Leverage Ratio (must be less than 4.75)	3.51	3.90	3.80
Fixed Charge Coverage Ratio (must be greater than 1.10)	1.77	1.73	1.56

Interest rate risk

On April 28, 2009 the Company entered into an interest rate swap with an initial notional principal amount of $90.0 million which fixes the interest rate on the Company's term credit facility at 2.61% plus the applicable credit spread per the swap agreement, maturing on April 24, 2012, to manage interest rate risk relating to potentially adverse changes in the LIBOR rate on the term credit facility. In connection with entering into the Credit Facility, the Company terminated the cross-currency interest rate swap and entered into a new interest rate swap designed to hedge floating interest rate exposure for the term of the Credit Facility. The fair value of the interest rate swap of $2.1 million was recorded on the balance sheet as a derivative financial instruments liability at January 3, 2010 (at December 28, 2008, the liability related to the cross-currency swap was $1.8 million) and the change in fair value has been recorded as interest expense for the reported period.

Credit risk

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

The carrying amount of accounts receivable 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 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 January 3, 2010:

(Unaudited)		
Current, including holdbacks	$	78,383
Past due amounts but not impaired		
1 – 60 days		21,800
Greater than 60 days		3,429
Less: Allowance for doubtful accounts		(92)
Total accounts receivables, net	$	103,520

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

Commitments and Contractual Obligations

Commitments

New Flyer's longer term commitments and contractual guarantees, as at January 3, 2010:

(US dollars in thousands)	Total	2010	2011	2012	2013	2014	Post 2014
Senior term loan	$ 101,650	$ 5,000	$ 5,000	$ 91,650	$ —	$ —	$ —
Subordinated Notes included in IDS issue	615,028	34,860	34,860	34,860	34,860	34,860	440,728
Separate Subordinated Notes	101,551	5,756	5,756	5,756	5,756	5,756	72,771
Capital leases	9,075	3,011	2,691	2,054	871	364	84
Operating leases	30,446	3,202	2,215	2,179	1,964	1,815	19,071
	$ 857,750	$ 51,829	$ 50,522	$ 136,499	$ 43,451	$ 42,795	$ 532,654

As at January 3, 2010, outstanding surety bonds guaranteed by the Company amounted to $20.2 million, which has remained constant compared to $20.2 million at December 28, 2008. 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 its senior credit facility, the Company has established a letter of credit facility of $40.0 million. As at January 3, 2010, letters of credit amounting to $17.0 million remain outstanding under the letter of credit facility as security for the following contractual obligations of the Company:

(Unaudited, US dollars in thousands)	
Collateral to secure operating facility leases	$ 267
Collateral to secure surety facilities	3,599
Customer performance guarantees	12,242
Collateral in support of self-insured workers' compensation obligations	880

Related Party Transactions

During 2009 Q4, as a result of working capital fluctuations in the previous quarter, dividend payments by NFL Holdings to NFI and to New Flyer LLC were restricted under the provisions of the note indenture governing the Subordinated Notes. Therefore, during this period, 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. The boards of directors of NFI and NFI ULC approved a loan arrangement for the months of October, November and December, 2009, of an aggregate of: (i) approximately C$1.7 million to be loaned each month 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) approximately C$0.1 million to be loaned by NFI to New Flyer LLC each month, 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. At January 3, 2010, a principal balance of C$8.8 million (C$8.3 million involves companies included in the consolidated financial statements) remained outstanding from 2009 Q4 and prior periods' loans. Subsequent to 2009 Q4, management determined that similar loan arrangements to support dividend payments relating to 2010 Q1 would not be required. All of these outstanding inter-company loans, from 2009 Q4 and prior periods (including interest) were repaid in 2010 Q1.

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

The cumulative charges under both the LTIP and the PUP totaled $1.2 million and $5.6 million for 2009 Q4 and Fiscal 2009, respectively, as compared to $0.9 million and $4.4 million recorded in 2008 Q4 and Fiscal 2008, respectively.

The Company has recorded a LTIP expense of $0.4 million and $2.8 million for 2009 Q4 and Fiscal 2009, respectively, as compared to $0.7 million and $3.1 million recorded in 2008 Q4 and Fiscal 2008, respectively.

Effective January 1, 2008, the PUP was implemented for eligible officers and management employees and replaces the LTIP. The LTIP continued in place until the end of 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 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 long-term liability. The Company recorded a PUP expense of $0.8 million and $2.8 million for 2009 Q4 and Fiscal 2009, respectively, compared to $0.2 million and $1.3 million recorded in 2008 Q4 and Fiscal 2008, respectively.

Cash Flow

The cash flows of the Company are summarized as follows:

(Unaudited, US dollars in thousands)	**2009 Q4**	**2008 Q4**	**Fiscal 2009**	**Fiscal 2008**
Cash from operating activities before changes in non-cash working capital items	$ 8,405	$ 6,616	$ 37,118	$ 32,422
Changes in non-cash working capital items	19,741	29,572	(11,299)	(4,599)
Cash flow from operating activities	28,146	36,188	25,819	27,823
Cash flow from financing activities	(4,716)	(4,571)	(20,811)	(15,274)
Cash flow from investing activities	(1,858)	(1,514)	(5,181)	(6,788)

Cash flows from operating activities

The 2009 Q4 net operating cash inflow of $28.1 million is the result of $8.4 million of net cash earnings and $19.7 million from reduced investment in working capital, compared to 2008 Q4 net operating cash inflow of $36.2 million resulting from $6.6 million of net cash earnings and a reduction of $29.6 million in working capital. A main contributor of this cash inflow is the decrease in inventory of $20.7 million from the previous quarter primarily as a result of a 75 equivalent unit reduction in inventory levels from 2009 Q3. The Company substantially completed the delivery of the remaining buses related to the significant customer contract with a design deficiency as disclosed in the Company's December 28, 2008 MD&A and described above. The Fiscal 2009 net cash operating inflow of $25.8 million is the result of an increase of $11.3 million in working capital offset by $37.1 million of net cash earnings compared to Fiscal 2008 net cash operating inflow of $27.8 million resulting from $32.4 million of net cash earnings, offset by an increase of $4.6 million in working capital.

Cash flow from financing activities

2009 Q4 cash outflow from financing activities of $4.7 million increased slightly as compared to $4.6 million in 2008 Q4. This increase is primarily as a result of 2009 Q4 dividends paid of $4.4 million increasing from 2008 Q4 dividends paid of $4.0 million offset by receiving $0.1 million of related party loans compared to a repayment of related party loans of $0.2 million in 2008 Q4.

The Company's financing activities for Fiscal 2009 resulted in a net cash outflow of $20.8 million, an increase of $5.5 million compared to Fiscal 2008 net cash outflow of $15.3 million. The primary factors of this increase are a result of increased dividend payments of $16.4 million compared to $14.0 million in Fiscal 2008 as a result of the new shares issued in connection with the 2008 Offerings. The Company repaid $0.3 million of related party loans in Fiscal 2009 compared to $0.2 million of repayments in Fiscal 2008. Also, Fiscal 2009 net cash outflow includes $2.5 million of transaction costs as part of the April 2009 refinancing of the senior credit facility, while the Fiscal 2008 cash flows from financing activities included a net cash outflow of $2.5 million as a result of the 2008 Offerings.

As a result of improved cash flow generated in 2009 Q4, the Company has repaid in 2010 Q1 all outstanding inter-company loans that were used to support dividend payments by NFI on its common shares and New Flyer LLC has repaid all outstanding loans advanced by NFI in lieu of dividends to New Flyer LLC on its Class B and Class C Shares.

Cash flow from investing activities

2009 Q4 investing activities resulted in a net cash outflow of $1.9 million compared to $1.5 million in 2008 Q4, and a net cash outflow of $5.2 million in Fiscal 2009 compared to $6.8 million in Fiscal 2008. The cash flows related to capital expenditures in Fiscal 2009 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)	2009 Q4	2008 Q4	Fiscal 2009	Fiscal 2008
Capital expenditures	$ 4,119	$ 2,057	$ 9,731	$ 8,414
Less capital expenditures funded by capital leases	(2,261)	(543)	(4,208)	(1,596)
Cash capital expenditure	1,858	1,514	5,523	6,818
Comprised of:				
Maintenance capital expenditures	1,115	1,260	2,548	2,552
Growth capital expenditures	743	254	2,975	4,266
	1,858	1,514	5,523	6,818

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.

International Financial Reporting Standards ("IFRS")

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 1, 2011. The Company will be required to begin reporting under IFRS for the quarter ending April 3, 2011 and will be required to prepare an opening balance sheet and provide information that conforms to IFRS for comparative periods presented.

The Company formally commenced its IFRS conversion project in the third fiscal 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 developed and project leaders have received training with respect to IFRS through attendance at seminars and through working with various specialists from the external advisory firm. As of January 3, 2010, the project continues to be on schedule in accordance with the implementation plan.

The Company will be implementing changes to accounting policies resulting from the transition to IFRS. The following list, though not exhaustive, identifies changes in key accounting policies due to the adoption of IFRS:

First-Time Adoption of International Financial Reporting Standards – IFRS 1, provides guidance for an entity's initial adoption of IFRS and generally requires the retrospective application of all IFRS effective at the end of its first IFRS reporting period. IFRS 1 however does include certain mandatory exceptions and allows certain limited optional exemptions from this general requirement of retrospective application. The Company expects to apply the following significant optional exemptions available under IFRS 1 on the opening transition date of January 4, 2010:

i. Business combinations – None will be restated prior to the transition date.

ii. ii. Fair value as deemed cost – The Company will elect to use at transition date the July 12, 2007 property, plant and equipment valuation as deemed cost, rolling forward from that starting point, any subsequent additions, disposals or amortization. Therefore no adjustment is required at transition date.

iii. iii. Borrowing costs – Capitalization will only be applied prospectively from the transition date with no adjustment required.

iv. iv. Actuarial losses on employee benefits – The Company will recognize all unrecorded actuarial losses in deficit upon transition. The estimated amount of the charge to deficit is $2.0 million.

Employee Benefit Plans – IAS 19, requires the past service cost element of defined benefit plans to be expensed on an accelerated basis, with vested past service costs being expensed immediately and unvested past service costs being recognized on a straight-line basis until the benefits become vested. This would result in a charge to deficit at January 4, 2010 of $3.3 million. Under Canadian GAAP, past service costs are generally amortized on a straight-line basis over the expected average remaining service period of active employees in the plan. In addition, IAS 19 requires an entity to make an accounting policy choice regarding the treatment of actuarial gains and losses. These choices include: (a) the corridor method which is similar to the method currently used by the Company under Canadian GAAP, (b) recording the actuarial gains and losses directly in income in the year incurred, and (c) recognizing the actuarial gains and losses directly in equity through comprehensive income. The Company is currently evaluating these options.

Income taxes relating to intra-group transfers IAS 12– Currently a future income tax liability or asset is recognized in the consolidated financial statements for a temporary difference arising between the tax basis of the asset in the buyer's tax jurisdiction and its cost as reported in the consolidated financial statements. Any taxes paid or recovered by the transferor as a result of the transfer should be recorded as an asset or liability in the consolidated financial statements until the gain or loss is recognized by the consolidated entity; however IFRS contains no such exemption. Management does not expect this change to have a material effect upon transition to IFRS but could have more impact in the future.

In addition, the Company is assessing its future income tax assets and liabilities in connection with any adjustments arising from the transition to IFRS. The Company acknowledges that the above list is not exhaustive of all possible significant items that will occur upon the transition to IFRS. The impact on the Company's information technology, data systems and processes will be dependent upon the magnitude of change resulting from these and other items. At this time, no significant impact on information or data systems has been identified.

The Company continues to monitor the potential changes proposed by the International Accounting Standards Board (IASB) and considers the impact that changes in the standards would have on the Company's operations. As well, the Company will continue to invest in training and external advisor resources throughout the transition to ensure a timely and successful conversion. The Company will continue to assess the impact of adopting IFRS, and will update its MD&A disclosures quarterly to report on the progress of its IFRS changeover plan.

Business Combinations, Handbook Section 1582

CICA Section 1582, Business Combinations, establishes standards for the accounting for a business combination and provides the Canadian equivalent to IFRS 3 "Business Combinations". The new recommendations require measuring business acquisitions at the fair value of the acquired business, including the measurement at fair value of items such as non-controlling interest and contingent payment considerations. In addition, business acquisition related costs are expensed as incurred. The standard applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after January 1, 2011 with earlier applications permitted. The adoption of Section 1582 could have a material effect on the accounting for business combinations that may occur subsequent to the adoption of this standard. The Company early adopted this standard on January 4, 2010.

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

CICA 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. These standards are effective beginning the first annual reporting period on or after January 1, 2011 with earlier application permitted. The adoption of Sections 1601 and 1602 is not anticipated to have a material effect on the accounting for consolidated financial statements that will occur subsequent to the adoption of this standard. The Company early adopted these standards on January 4, 2010.

Multiple Deliverable Revenue Arrangements ("EIC 175")

In December 2009, the EIC issued a new abstract concerning multiple deliverable revenue arrangements, EIC 175 "Multiple Deliverable Revenue Arrangements", which amended EIC 142 "Revenue Arrangements with Multiple Deliverables" ("EIC 142"). The objective of issuing this Abstract is to harmonize EIC 142 with amendments made to U.S. generally accepted accounting principles. These amendments require a vendor to allocate arrangement consideration at the inception of the arrangement to all deliverables using the relative selling price method, thereby eliminating the use of the residual value method. The amendments also change the level of evidence of the standalone selling price required to separate deliverables when more objective evidence of the selling price is not available. EIC 175 should be adopted prospectively to revenue arrangements entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011, with early adoption permitted. EIC 142 continues to be effective until that date. The Company has not yet determined the impact of the adoption of this change on its Consolidated Financial Statements.

Controls and Procedures

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining internal controls over financial reporting ("ICFR"), as defined under rules adopted by the Canadian Securities Administrators. ICFR were designed under the supervision of, and with the participation of, the 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, under the supervision of the CEO and CFO, evaluated the design of the Company's ICFR as of January 3, 2010 in accordance with the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and concluded that the Company's ICFR was not effective due to the existence of a material weakness relating to accounting for income taxes. Management is continuing to explore additional internal control procedures to address this area 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.

The Company had previously identified a material weakness in its ICFR relating to spreadsheet control which has now been rectified. During 2009 Q4, management successfully implemented and tested for design and effectiveness, an enhanced spreadsheet internal control procedure of reviewing and approving the related audit trail report using a spreadsheet control software program. This software program provides the Company with the ability to track changes made in its spreadsheets used to generate certain key financial information included in the Company's financial statements. This tool enhances the reliability of the financial information generated. There have been no other changes in the Company's ICFR during the most recent interim period that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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

Disclosure Controls

Management is responsible for establishing and maintaining disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner and that information required to be disclosed is reported within time periods prescribed by applicable securities legislation. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Due to the existence of a material weakness in ICFR relating to accounting for income taxes, as noted above under "Internal Controls over Financial Reporting", the Company's Chief Executive Officer and Chief Financial Officer have concluded that disclosure controls and procedures as at January 3, 2010 were not effective as it relates to accounting for income taxes.

Consolidated Financial Statements of

NEW FLYER INDUSTRIES INC.

January 3, 2010

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AUDITORS' REPORT

To the Shareholders
New Flyer Industries Inc.

We have audited the consolidated balance sheets of New Flyer Industries Inc. as at January 3, 2010 and December 28, 2008 and the consolidated statements of operations, comprehensive (loss) income and deficit and cash flows for the 53-week and 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 January 3, 2010 and December 28, 2008 and the results of its operations and its cash flows for the 53-week and 52-week periods then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Winnipeg, Manitoba
March 23, 2010

NEW FLYER INDUSTRIES INC.

CONSOLIDATED BALANCE SHEETS

As at January 3, 2010 and December 28, 2008
(in thousands of U.S. dollars)

	January 3, 2010	December 28, 2008
Assets		
Current		
Cash	$ 30,696	$ 30,721
Accounts receivable (note 3)	103,520	99,310
Inventories (note 4)	139,357	145,794
Prepaid expenses and deposits	5,679	8,836
Derivative financial instruments (note 13c)	420	—
Embedded derivative instrument (note 2 o)	—	749
Due from related party (note 17)	510	218
Future income tax assets (note 12)	8,767	13,173
	288,949	298,801
Property, plant and equipment (note 5)	37,215	34,130
Intangible assets (note 6)	373,408	389,274
Future income tax assets (note 12)	2,796	9,618
Goodwill	167,521	167,521
	$ 869,889	$ 899,344
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 166,044	$ 167,678
Deferred revenue	25,129	48,324
Provision for warranty costs	31,409	27,014
Current portion of derivative financial instruments (note 13c)	—	1,849
Current portion of obligations under capital lease (note 7)	2,590	1,339
Current portion of long-term debt (note 8)	—	89,681
	225,172	335,885
Accrued benefit liability (note 15)	1,305	3,094
Obligations under capital lease (note 7)	5,570	4,120
Performance unit plan liability (note 16)	4,547	1,092
Future income tax liabilities (note 12)	133,164	140,956
Long-term debt (note 8)	376,333	250,501
Derivative financial instruments (note 13c)	2,091	—
Other liabilities, Class B and Class C common shares (note 9)	21,018	16,051
	769,200	751,699
Commitments and contingencies (note 18)		
Shareholders' (deficiency) equity		
Share capital (note 10)	217,469	217,469
Deficit	(116,780)	(69,824)
	100,689	147,645
	$ 869,889	$ 899,344

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

APPROVED ON BEHALF OF THE BOARD:

"Hon. Brian V. Tobin", Director
"Wayne McLeod", Director

NEW FLYER INDUSTRIES INC.

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

53 weeks ended January 3, 2010 and 52 weeks ended December 28, 2008
(in thousands of U.S. dollars except per share figures)

	Fiscal 2009	Fiscal 2008
Revenue	$ 1,099,866	$ 961,301
Cost of sales (excluding amortization)	953,094	820,849
Sales, general administration costs and other operating expenses	44,115	45,844
Amortization	22,619	25,173
Foreign exchange loss	2,551	788
Earnings from operations	77,487	68,647
Unrealized foreign exchange loss (gain) on non-current monetary items and forward foreign exchange contracts	36,202	(52,035)
Follow-on offering related costs (note 1)	—	592
Gain on disposition of property, plant and equipment	(231)	(30)
Fair value adjustment to embedded derivative	787	(699)
Fair value adjustment to other liabilities, Class B and C common shares (note 9)	4,967	(23,546)
Earnings before interest and income taxes	35,762	144,365
Interest expense		
Interest on long-term debt	44,599	40,101
Accretion in carrying value of long-term debt	893	271
Other interest and bank charges	2,387	996
Fair market value adjustment on interest rate swap	273	(1,339)
	48,152	40,029
Distributions on Class B and Class C common shares (note 9)	1,646	8,776
	49,798	48,805
(Loss) earnings before income tax expense	(14,036)	95,560
Income tax expense (note 12)		
Current income taxes	11,852	10,279
Future income taxes (recovered)	4,492	(2,353)
	16,344	7,926
Net (loss) earnings and comprehensive (loss) income for the period	(30,380)	87,634
Deficit beginning of period	(69,824)	(143,534)
Net (loss) earnings for the period	(30,380)	87,634
Transitional adjustment on adoption of new accounting policies (notes 2f)		390
Dividends declared	(16,576)	(14,314)
Deficit end of period	$ (116,780)	$ (69,824)
Net (loss) earnings per share (basic and diluted) (note 10)	$ (0.64)	$ 2.27

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

NEW FLYER INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

53 weeks ended January 3, 2010 and 52 weeks ended December 28, 2008
(unaudited, in thousands of U.S. dollars)

	Fiscal 2009	Fiscal 2008
Cash provided by (used in)		
Operating activities		
Net (loss) earnings for the period	$ (30,380)	$ 87,634
Amortization of plant and equipment	6,753	9,601
Amortization of intangible assets	15,866	15,572
Gain on disposition of property, plant and equipment	(231)	(30)
Future income taxes (recovered)	4,492	(2,353)
Unrealized loss (gain) on cross-currency interest rate swap	273	(1,339)
Unrealized foreign exchange loss (gain) on non-current monetary items and forward foreign exchange contracts	36,202	(52,035)
Accretion in carrying value of long-term debt	893	271
Foreign exchange (gain) loss on cash held in foreign currency	(148)	333
Non cash impact of embedded derivative	(36)	(25)
Fair value adjustment to embedded derivative	787	(699)
Fair value adjustment to other liabilities, Class B and C common shares	4,967	(23,546)
Defined benefit expense (note 15)	1,278	1,583
Defined benefit funding (note 15)	(3,598)	(2,545)
Cash from operating activities before changes in non-cash working capital items	37,118	32,422
Changes in non-cash working capital items (note 11)	(11,299)	(4,599)
	25,819	27,823
Financing activities		
Repayment of obligations under capital lease	(1,679)	(1,427)
Share issuance	—	99,033
Costs associated with share issuance	—	(1,855)
Proceeds from issue of long-term debt	—	104,404
Costs associated with refinancing or debt issuance	(2,458)	(2,506)
Repayment of other liabilities, Class B and C common shares	—	(198,692)
Due from related party	(292)	(218)
Dividends paid	(16,382)	(14,013)
	(20,811)	(15,274)
Investing activities		
Proceeds from disposition of property, plant and equipment	342	30
Acquisition of property, plant and equipment	(5,523)	(6,818)
	(5,181)	(6,788)
Effect of foreign exchange rate on cash	148	(333)
(Decrease) Increase in cash	(25)	5,428
Cash beginning of period	30,721	25,293
Cash end of period	$ 30,696	$ 30,721

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
As at January 3, 2010 and December 28, 2008
(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 support 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").

2008 transactions

On April 10, 2008, the Company together with NFI ULC issued 8,770,000 Income Deposit Securities ("IDS"), sold at a price of C$11.40 per IDS for gross proceeds of C$99,978, and on September 3, 2008, the Company together with NFI ULC issued 9,143,100 IDSs, sold at a price of C$11.20 per IDS for gross proceeds of C$102,403 (the "2008 Offering"). Each IDS consists of one common share of the Company and C$5.53 principal amount of subordinated notes of NFI ULC ("Subordinated Notes"). Pursuant to the 2008 Offerings, 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 2008 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 2008 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 all the remaining shares of NFL Holdings held by New Flyer Transit L.P. and some of the shares held by management and former management through New Flyer LLC. After giving effect to these transactions, the Company increased its ownership interest in NFL Holdings from 55.3% to an approximate 95.0% ownership interest, while management and former management through New Flyer LLC decreased its ownership in NFL Holdings to an approximate 5.0% 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 used to repurchase 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.

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.

(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 2009 and 2008 fiscal period is based on four quarters as follows:

	Period from December 29, 2008 to January 3, 2010 (Fiscal 2009)		Period from December 31, 2007 to December 28, 2008 (Fiscal 2008)	
	Period End Date	# of Weeks	Period End Date	# of Weeks
Quarter 1	April 5, 2009	14	March 30, 2008	13
Quarter 2	July 5, 2009	13	June 29, 2008	13
Quarter 3	October 4, 2009	13	September 28, 2008	13
Quarter 4	January 3, 2010	13	December 28, 2008	13
Fiscal year	January 3, 2010	53	December 28, 2008	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, derivative financial instruments, embedded derivatives, 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 Canadian Institute of Chartered Accountants ("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.

The Company adopted Canadian Institute of Chartered Accountants ("CICA") Section 3031 "Inventories" effective December 31, 2007 and as a result 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 2008 opening deficit was decreased by $390.

(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 as the Company is the primary beneficiary of NFL Holdings, in accordance with AcG-15, and as such, began consolidating the assets, liabilities and the results of operations of NFL Holdings and its subsidiaries on July 12, 2007.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Financial instruments and derivative financial instruments

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.

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 payables and 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 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 an embedded derivative asset 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 asset did not exist at January 3, 2010 (December 28, 2008: $749).

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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 not more likely than not that all or some portion of the future income tax assets will 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.

(t) New Accounting Policies Adopted

During the 53-week period ended January 3, 2010, the Company adopted the following new handbook sections issued by the Canadian Institute of Chartered Accountants (CICA):

Goodwill and intangible assets, Handbook Section 3064

Effective December 29, 2008, the Company implemented the new CICA Handbook Section 3064 "*Goodwill and Intangible Assets*". This Section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of Section 3064 did not have a material impact on the Company's consolidated financial statements or results of operations.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC-173")

During the year, the Company adopted EIC-173 "Credit Risk and the Fair value of Financial Assets and Financial Liabilities". Under this new standard, an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of these recommendations did not have any material effect on the Company's consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments – Disclosures, Handbook Section 3862

During 2009, the CICA issued amendments to section 3862 "Financial Instruments – Disclosures", to enhance disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The amendments to Section 3862 apply for annual financial statements relating to fiscal years ending after September 30, 2009.

In accordance with CICA Handbook Section 3862, Financial Instruments – Disclosures, the Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

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

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

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

(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.

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 AcSB confirmed the effective date of the initial adoption of IFRS.

Business Combinations*, Handbook Section 1582*

CICA Section 1582, Business Combinations, establishes standards for the accounting for a business combination and provides the Canadian equivalent to IFRS 3 "Business Combinations". The new recommendations require measuring business acquisitions at the fair value of the acquired business, including the measurement at fair value of items such as non-controlling interest and contingent payment considerations. In addition, business acquisition related costs are expensed as incurred. 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 1, 2011 with earlier applications permitted. The adoption of Section 1582 could have a material effect on the accounting for business combinations that may occur subsequent to the adoption of this standard. The Company has early adopted this standard on January 4, 2010.

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

CICA 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. These standards are effective beginning the first annual reporting period on or after January 1, 2011 with earlier application permitted. The adoption of Sections 1601 and 1602 is not anticipated to have a material effect on the accounting for consolidated financial statements that will occur subsequent to the adoption of this standard. The Company has early adopted these standards on January 4, 2010.

Multiple Deliverable Revenue Arrangements (“EIC 175”)

In December 2009, the EIC issued a new abstract concerning multiple deliverable revenue arrangements, EIC 175 “Multiple Deliverable Revenue Arrangements”, which amended EIC 142 “Revenue Arrangements with Multiple Deliverables” (“EIC 142”). The objective of issuing this Abstract is to harmonize EIC 142 with amendments made to U.S. generally accepted accounting principles. These amendments require a vendor to allocate arrangement consideration at the inception of the arrangement to all deliverables using the relative selling price method, thereby eliminating the use of the residual value method. The amendments also change the level of evidence of the standalone selling price required to separate deliverables when more objective evidence of the selling price is not available. EIC 175 should be adopted prospectively to revenue arrangements entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011, with early adoption permitted. EIC 142 continues to be effective until that date. The Company has not yet determined the impact of the adoption of this change on its Consolidated Financial Statements.

3. ACCOUNTS RECEIVABLE

	January 3, 2010	December 28, 2008
Trade	$ 96,375	$ 89,173
Income taxes	—	2,043
Other	7,145	8,094
	$ 103,520	$ 99,310

The carrying value of accounts receivable is pledged as security against the Company’s credit facility.

4. INVENTORIES

	January 3, 2010	December 28, 2008
Raw materials	$ 57,893	$ 61,215
Work in process	72,729	70,564
Finished goods	8,735	14,015
	$ 139,357	$ 145,794

During the 53-week period ended January 3, 2010, the cost of sales expense includes $4,875 (2008: $600) relating to the write-down of inventory to net realizable value. The carrying value of inventories is pledged as security against the Company’s credit facility.

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

5. PROPERTY, PLANT AND EQUIPMENT

	January 3, 2010			December 28, 2008		
	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	11,786	1,026	10,760	10,745	598	10,147
Machinery and equipment	21,802	9,456	12,346	18,770	6,509	12,261
Demonstrator buses	1,364	629	735	1,235	541	694
Computer hardware and software	7,839	4,362	3,477	7,282	3,596	3,686
Office equipment	507	158	349	367	100	267
Under capital lease:						
Computer hardware	3,861	1,554	2,307	2,259	748	1,511
Machinery and equipment	7,620	2,445	5,175	4,957	1,459	3,498
	$ 56,845	$ 19,630	$ 37,215	$ 47,681	$ 13,551	$ 34,130

The plant and equipment amortization expense recorded as inventory at January 3, 2010 was $597 (2008: $815).

6. INTANGIBLE ASSETS

	January 3, 2010			December 28, 2008		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Finite-life intangible assets:						
Patents	$ 99,700	$ 20,524	$ 79,176	$ 99,700	$ 12,215	$ 87,485
Customer relationships	158,700	18,668	140,032	158,700	11,111	147,589
Indefinite-life intangible assets:						
Trade names	154,200	—	154,200	154,200	—	154,200
	$ 412,600	$ 39,192	$373,408	$ 412,600	$ 23,326	$ 389,274

The intangible asset amortization expense recorded during the 53-week period ended January 3, 2010 was $15,866 (2008: $15,572).

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

7. OBLIGATIONS UNDER CAPITAL LEASES

The Company has entered into capital leases for equipment, computer hardware and software licenses, with an imputed weighted average interest rate of 6.27% based on individual lease rates ranging between 1.19% and 13.85%, expiring between 2010 and 2015. The following is a schedule of future minimum lease payments, together with the balance of the obligation under the capital leases as at January 3, 2010:

2010	$ 3,011
2011	2,691
2012	2,054
2013	871
2014	364
Thereafter	84
	9,075
Less: Amounts representing interest	915
	8,160
Less: Current portion	2,590
	$ 5,570

8. LONG-TERM DEBT

	Final Maturity	Face Value	Unamortized Transaction Costs	Net Book Value January 3, 2010	Net Book Value December 28, 2008
Subordinated Notes included in the IDS issue (a) (C$261,697)	2020	$ 248,998	$ 1,667	$ 247,331	$ 214,917
Separate Subordinated Notes (b) (C$43,210)	2020	41,113	167	40,946	35,584
Term Credit Facility (c)	2012	90,000	1,944	88,056	89,681
		380,111	3,778	376,333	340,182
Less current portion		—	—	—	(89,681)
		$ 380,111	$ 3,778	$ 376,333	$ 250,501

There are no principal repayments required on long-term debt within the next five years except for the Term Credit Facility (as defined in (c) below) to be repaid in April 2012.

(a) C$261,697 (2008: C$261,697) 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.

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.

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

8. LONG-TERM DEBT (Continued)

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 (2008: C$43,210) 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 vote together as a single class in proportion to the aggregate principal amount of Subordinated Notes they hold on all matters on which they are eligible to vote under the indenture.

(c) On April 24, 2009, NFI ULC and NFAI entered into an amended and restated senior credit facility with a syndicate of financial institutions (the "Credit Facility"). The Credit Facility matures in April, 2012 and replaces the previous credit facility entered into by NFI ULC and NFAI on August 19, 2005 (the "old Credit Facility"). The Credit Facility includes a $90,000 secured term loan facility (the "Term Credit Facility"), of which $90,000 was drawn at January 3, 2010, a $50,000 secured revolving credit facility (with no drawings at January 3, 2010 and December 28, 2008) and a $40,000 letter of credit facility, which was drawn at $16,988 at January 3, 2010 (2008: $19,554).

On June 26, 2008 the Company amended the Old Credit Facility to relax the restrictions on NFI ULC and certain of its affiliates relating to the payment of dividends. These amendments are included in the terms of the Credit Facility. 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 be paid based on excess cash flow generated during the prior four fiscal quarters. The fees related to the amendment of the Old Credit Facility were capitalized and will be expensed over the remaining term of the Term Credit Facility. NFI ULC has also established a procedure to align the funding of dividends on NFI's common shares under the provisions of the note indenture with the dividend payment provision under the 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 both Fiscal 2009 and Fiscal 2008, resulting in inter-company related party loan receivable at January 3, 2010 of $510 (2008: $218).

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)		January 3, 2010	December 28, 2008
464	Class B Shares (464 – December 28, 2008)	$ 3,872	$ 2,957
2,054	Class C Shares (2,054 – December 28, 2008)	17,146	13,094
		$ 21,018	$ 16,051

	Class B Shares	Class C Shares	Total
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
Redemption value adjustment	915	4,052	4,967
Redemption value at January 3, 2010	$ 3,872	$ 17,146	$ 21,018

In connection with the 2008 Offerings 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 53-week period ended January 3, 2010, the Company recorded an increase in the liabilities represented by the Class B Shares and Class C Shares of $915 and $4,052, 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 53-week period ended January 3, 2010, NFL Holdings declared dividends of $303 and $1,343 (2008: $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 be subordinated in favour of distributions on the Class A and C Shares until certain conditions were 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		**January 3, 2010**	**December 28, 2008**
47,323,100	Common Shares (2008 – 47,323,100)	$ 217,469	$ 217,469

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

Common Shares	Number (000s)	$
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 and January 3, 2010	47,323	$ 217,469

The basic and diluted earnings per share has been calculated using the weighted average number of shares outstanding for the 53-week period ended January 3, 2010 of 47,323,100 and 38,685,420 for the 52-week period ended December 28, 2008.

The Company declared dividends during the 53-week periods ended January 3, 2010 of $16,576 (2008 - $14,314) 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

Cash inflow (outflow)	Fiscal 2009	Fiscal 2008
Accounts receivable	$ (4,210)	$ 16,297
Inventories	6,219	(32,183)
Prepaid expenses and deposits	3,157	1,848
Accounts payable and accrued liabilities	2,305	17,830
Deferred revenue	(23,165)	(6,881)
Provision for warranty costs	4,395	(1,510)
	$ (11,299)	$ (4,599)

Supplemental cash flow information

	Fiscal 2009	Fiscal 2008
Cash payments of interest	$ 46,981	$ 36,883
Cash (refund) payments of income taxes	(3,349)	23,892

12. INCOME TAXES

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

	Fiscal 2009	Fiscal 2008
(Loss) earnings before income tax	$ (14,036)	$ 95,560
Combined statutory rate	33.0%	33.5%
	(4,632)	32,013
Valuation allowance (recovered)	(2,941)	391
Withholding and other taxes	1,382	1,438
Non-deductible expenses	128	178
Revision of tax estimates	(1,342)	409
Impact of subsidiaries' foreign branch operations	3,714	2,853
Foreign exchange impact of subsidiaries' foreign branch	17,525	(23,444)
Distributions on Class B and C common shares treated as interest expense	543	2,940
Impact of other liabilities, Class B and C common shares fair value adjustment	1,639	(7,888)
Other	328	(964)
Income tax expense	$ 16,344	$ 7,926
Comprised of:		
Current income taxes	$ 11,852	$ 10,279
Future income taxes (recovered)	4,492	(2,353)
Income tax expense	$ 16,344	$ 7,926

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

12. INCOME TAXES (Continued)

The Company has a loss carry-forward of $8,422 which may be applied against future taxable income. The right to claim these losses expires as follows:

2010 to 2019 (includes $551 of U.S. federal tax losses that are restricted in application to $55 per year)	$	1,055
2026		1,592
2027		1,233
2028		2,156
2029		2,386
	$	8,422

In addition to the above, the Company has a capital loss carry-forward of $1,301 available to deduct against future capital gains. Annually, the Company reviews the likelihood of realization of the future tax benefits pertaining to loss carry-forwards and other temporary differences. The recognition and measurement of future income tax assets and liabilities involves dealing with uncertainties in the application of tax regulations both in Canada and the U.S. and in the recoverability of future tax assets. In management's opinion, certain loss carry-forwards, tax credits and temporary differences have not met the criteria for recording a future tax asset. Accordingly, the Company has recognized a valuation allowance of $9,768.

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

	January 3, 2010	December 28, 2008
Future income tax assets		
Accounts payable and accrued liabilities	$ 3,005	$ 1,500
Inventory and warranty reserves	13,528	11,304
Capital and non-capital losses carried forward	2,838	1,946
Other assets	330	803
Accrued benefit liability	476	1,129
Property, plant and equipment	330	—
Inter-company profit elimination	166	—
Deferred financing costs	4,956	6,440
Tax credit pool	7,761	16,550
Valuation allowance	(9,768)	(11,743)
Future income tax assets	$ 23,622	$ 27,929
Future income tax liabilities		
Property, plant and equipment	$ (1,987)	$ (2,386)
Intangible assets	(136,294)	(142,085)
Inter-company profit elimination	—	(33)
Unamortized transaction costs	(1,486)	(700)
Embedded derivative instrument	—	(264)
Unrealized foreign exchange gain/losses	(5,162)	(342)
Other assets	(294)	(284)
Future income tax liabilities	$ (145,223)	$ (146,094)
Net future income tax liability	$ (121,601)	$ (118,165)
Recorded as		
Current future income tax assets	$ 8,767	$ 13,173
Non-current future income tax assets	2,796	9,618
Non-current future income tax liabilities	(133,164)	(140,956)
	$ (121,601)	$ (118,165)

(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 measurement of financial instruments

In accordance with CICA Handbook Section 3862, Financial Instruments – Disclosures, the Company categorizes its fair value measurements of financial instruments according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

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

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

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

The fair value under the amendment to Section 3862 is principally applied to financial assets and liabilities such as derivative instruments consisting of interest rate swaps and foreign exchange forward contracts and cash. The following table provides summary of financial assets and liabilities that are measured at fair value as of January 3, 2010:

	January 3, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash	$ 30,696	$ —	$ —	$ 30,696
Derivative financial instrument asset				
Foreign exchange forward contract	—	420	—	420
	$ 30,696	$ 420	$ —	$ 31,116
Liabilities				
Derivative financial instrument liabilities				
Interest rate swap	—	2,091	—	2,091
	$ —	$ 2,091	$ —	$ 2,091

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

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

Financial instruments whose carrying value approximates fair value – The carrying value of accounts receivable, deposits and accounts payable and accrued liabilities approximates their fair value due to the short-term nature of these instruments. The carrying 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. 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.

Long-term debt – 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:

	January 3, 2010		December 28, 2008	
	Net Book Value	**Fair Value**	**Net Book Value**	**Fair Value**
Subordinated Notes included in the IDS issue	$ 247,331	$ 248,486	$ 214,917	$ 219,870
Separate Subordinated Notes	$ 40,946	$ 41,029	$ 35,584	$ 36,304

(c) Risk Management

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

Market risk (interest rate risk and currency risk)

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

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

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Interest rate risk

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

In connection with the refinancing of the Credit Facility, the Company terminated the existing cross-currency interest rate swap and entered into a new interest rate swap designed to manage interest rate risk relating to potentially adverse changes in the LIBOR rate on the Term Credit Facility. On April 28, 2009, the Company entered into an interest rate swap with a notional principal amount of $90,000 which fixes the interest rate on the Term Credit Facility as 2.61% plus the applicable credit spread per the swap agreement, maturing on April 24, 2012. The fair value of the interest rate swap liability at January 3, 2010 is $2,091 (December 28, 2008: $1,849 related to the previous cross-currency interest rate swap) and the change in fair value has been recorded as interest expense for the reported period. The related liability has been recorded on the balance sheet as a derivative financial instruments liability.

The 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, net earnings and comprehensive income for the 53-week period ended January 3, 2010 would have been higher by $1,210 (2008 - $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, net earnings and comprehensive income for the 53-week period ended January 3, 2010 would have been lower by $1,176 (2008 - $372), arising mainly as a result of the related fair value adjustment recorded as higher interest expense.

Foreign currency risk

The United States dollar is the Company's functional currency. Fluctuations in the exchange rate between the United States dollar and Canadian dollar will affect the Company's reported results. However, the impact of changes in foreign exchange rates on the Company's reported results differs over time depending on whether the Company is generating a net cash inflow or outflow of Canadian dollars. This is largely dependent on the Company's revenue mix by currency as operating costs denominated in Canadian dollars have been relatively stable. During the 53-week period ended January 3, 2010, the Company generated a net inflow of Canadian dollars, as such, earnings from operations are negatively affected by a weakening in the Canadian dollar compared to the United States dollar. Alternatively, to the extent the Company has borrowings that are denominated in Canadian dollars, its earnings before income taxes will be positively affected by a weakening in the Canadian dollar compared to the United States dollar.

During the 53-week period ended January 3, 2010, the Company recorded realized foreign exchange losses of $1,322 (2008: $1,948) relating to the settlement of the foreign exchange forward contracts at an agreed exchange rate.

At January 3, 2010, the Company has foreign exchange forward contracts that expire in February and March 2010, the related asset of $420 is recorded on the balance sheet as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts has been recorded in the consolidated statements of operations. In comparison there were no open forward contracts at December 28, 2008.

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. At January 3, 2010, if the Canadian dollar had weakened 10 percent against the US dollar, with all other variables held constant, net earnings and comprehensive income for the 53-week periods ended January 3, 2010 would have been higher by $17,160 (2008 - $12,979), respectively. Conversely, if the Canadian dollar had strengthened 10 percent against the US dollar with all other variables held constant, net earnings and comprehensive income would have been lower by $20,973 (2008 - $15,204) for the 53-week periods ended January 3, 2010. The impact of these potential fluctuations produce unrealized foreign exchange gains and losses almost entirely related to the Canadian denominated long-term debt that matures in 2020.

(d) 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 January 3, 2010, if the IDSs price had weakened 10 percent, with all other variables held constant, net earnings and comprehensive income for the 53-week period ended January 3, 2010 would have been higher by $2,102 (2008 - $1,605). Conversely, if the IDSs price had strengthened 10 percent with all other variables held constant, net earnings and comprehensive income would have been lower by $2,102 (2008 - $1,605) for this same period.

(e) 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 January 3, 2010:

US dollars in thousands	Total	2010	2011	2012	2013	2014	Post 2014
Term Credit Facility	$ 101,650	$ 5,000	$ 5,000	$ 91,650	$ —	$ —	$ —
Subordinated Notes included in IDS issue	615,028	34,860	34,860	34,860	34,860	34,860	440,728
Separate Subordinated Notes	101,551	5,756	5,756	5,756	5,756	5,756	72,771
Capital leases	9,075	3,011	2,691	2,054	871	364	84
Operating leases	30,446	3,202	2,215	2,179	1,964	1,815	19,071
	$ 857,750	$ 51,829	$ 50,522	$ 136,499	$ 43,451	$ 42,795	$ 532,654

The Class B Shares and Class C Shares have no fixed maturity. However, the securityholders' agreement governing NFL Holdings that provide the holders of these shares with a Liquidity Right (described in note 9) 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 January 3, 2010, the Company had a cash balance of $30,696 and had a $50,000 secured revolving credit facility. As at January 3, 2010, 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)

(f) 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. During the 53-week period ended January 3, 2010, the Company recorded a bad debt expense of $9 (2008- $772).

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 are as follows:

	January 3, 2010	December 28, 2008
Current, including holdbacks	$ 78,383	$ 85,267
Past due amounts but not impaired		
1 – 60 days	21,800	9,972
Greater than 60 days	3,429	4,146
Less: Allowance for doubtful accounts	(92)	(75)
Total accounts receivables, net	$ 103,520	$ 99,310

As at January 3, 2010, 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 ongoing regular basis.

(g) 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, 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 January 3, 2010, the Company is in compliance with the financial covenants in the Credit Facility. The results of the financial covenants tests as of such date are as follows:

	January 3, 2010	December 28, 2008
Senior Leverage Ratio (must be less than 2.25)	0.67	1.04
Total Leverage Ratio (must be less than 4.75) (a)	3.51	3.80
Fixed Charge Coverage Ratio (must be greater than 1.10)	1.77	1.56

(a) The Total Leverage Ratio covenant limit was reduced from 5.75 on April 24, 2009.

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 support 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 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 2009			
	Bus Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 991,703	$ 108,163	$ —	$ 1,099,866
Operating costs and expenses	912,894	84,315	—	997,209
Earnings (loss) before income taxes	78,809	23,848	(116,693)	(14,036)
Total assets	413,670	39,622	416,597	869,889
Capital expenditures	5,178	345	—	5,523
Goodwill	162,437	5,084	—	167,521

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

14. SEGMENT INFORMATION (Continued)

	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

The allocation of revenue to geographic areas is as follows:

	Fiscal 2009	Fiscal 2008
United States	$ 827,421	$ 696,257
Canada	272,445	265,044
Total	$1,099,866	$ 961,301

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

	January 3, 2010	December 28, 2008
United States	$ 8,513	$ 8,244
Canada	28,702	25,886
Total	$ 37,215	$ 34,130

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 2009	Fiscal 2008
Customer A	$ 160,464	$ 199,293
Customer B	120,460	—

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. An actuarial valuation was last performed as at December 31, 2008. The next compulsory actuarial valuation as of December 31, 2009 will be completed in 2010.

On April 1, 2009 (amendment date) the Company signed a new collective bargaining agreement that included changes to this defined benefit plan. Also, the Company changed the discount rate used from 7.50% to 8.75% to reflect the interest rate environment as at that date. As a result of the plan changes, the accrued benefit obligation was increased by $3,203 which resulted in amortization of past service costs of $184, for the period ended January 3, 2010.

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

	January 3, 2010	December 28, 2008
Change in plan assets		
Plan assets at fair value beginning of period	$ 14,897	$ 19,323
Actual return on plan assets	1,823	(2,667)
Employer's contributions	3,598	2,545
Benefits paid	(741)	(756)
Foreign exchange	2,651	(3,548)
Plan assets at fair value end of period	22,228	14,897
Change in accrued benefit obligation		
Accrued benefit obligation beginning of period	17,146	24,934
Current service cost	1,026	1,605
Interest cost	1,595	1,287
Benefits paid	(741)	(756)
Foreign exchange	3,314	(4,295)
Plan amendments	3,203	—
Actuarial loss (gain)	3,315	(5,629)
Accrued benefit obligation end of period	28,858	17,146
Funded status plan deficit	(6,630)	(2,249)
Unamortized past service costs	3,283	—
Unamortized net actuarial loss (gain)	2,042	(845)
Accrued benefit liability	$ (1,305)	$ (3,094)

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

	Fiscal 2009	Fiscal 2008
Accrued benefit obligation		
Discount rate	6.50%	7.50%
Pension plan expense		
Discount rate	8.75%	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 2009	Fiscal 2008
Current service costs	$ 1,026	$ 1,605
Interest cost on accrued benefit obligations	1,595	1,287
Actual return on assets	(1,823)	2,667
Plan amendments	3,203	—
Foreign exchange	(207)	—
Actuarial loss (gain) on accrued benefit obligations	3,315	(5,629)
Pension cost (recovered) before adjustments to recognize long-term nature of the plan	7,109	(70)
Difference between expected and actual return on plan assets	620	(3,976)
Difference between amortization of past service costs for period and actual plan amendments	(3,019)	—
Difference between actuarial gain/loss recognized and actual actuarial gain/loss on benefit obligation	(3,432)	5,629
Pension expense for the period	$ 1,278	$ 1,583

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

	January 3, 2010	December 28 2008
Asset category		
Canadian equities	21.8%	19.4%
Foreign equities	24.3%	23.7%
Bonds	53.9%	56.9%
	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 2009	Fiscal 2008
Defined contribution pension expense	$ 1,632	$ 1,419

Cash payments contributed by the Company during the 53-week period ended January 3, 2010 for its defined benefit and defined contribution pension plans amounted to $5,230 (2008: $3,964).

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

16. PERFORMANCE UNIT PLAN LIABILITY

Effective January 1, 2008, the company adopted the PUP to replace the long-term incentive plan ("LTIP"). The LTIP continued in place until the end of 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 or 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.

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, 238,722 PUs remained outstanding at December 29, 2008. During the 53-week period ended January 3, 2010 additional 560,713 PUs were granted to the Company's executives, 112,856 PUs were forfeited and a net of 87,618 PUs were credited to the participants for distributions paid. For the 53-week period ended January 3, 2010, a compensation expense of $2,766 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 balance at January 3, 2010.

	January 3, 2010	December 28, 2008
Due from New Flyer LLC (held by management), interest rate of 15.5%, payable on demand	$ 510	$ 218

Loans were made in lieu of dividends to New Flyer LLC on its Class B and Class C Shares. The related party transactions were measured at the exchange amount, which is the amount of consideration established and agreed to by the related party. The loans were repaid subsequent to January 3, 2010.

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

18. COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitments

The Company has leased real property with aggregate minimum lease payments of $30,446 payable as follows:

2010	$	3,202
2011		2,215
2012		2,179
2013		1,964
2014		1,815
Thereafter		19,071
	$	30,446

(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 January 3, 2010 range from January 2010 to May 2012.

At January 3, 2010, outstanding surety bonds guaranteed by the Company totaled $20,163 (2008: $20,238). The Company has not recorded any liability under these guarantees, as management believes that no material events of default exist under any contracts with customers.

(d) The Company has a letter of credit facility of $40,000. As at January 3, 2010, letters of credit totaling $16,988 (2008: $19,554) remain outstanding under the letter of credit facility as security for the following contractual obligations of the Company:

		January 3, 2010		**December 28 2008**
Collateral to secure operating facility leases	$	267	$	261
Collateral to secure surety facilities		3,599		3,599
Customer performance guarantees		12,242		15,214
Collateral in support of self-insured workers compensation obligations		880		480

As at January 3, 2010, 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.

(e) As a result of the reduced planned production levels during the 53 week period ending January 3, 2010, the Company reduced its workforce. As at January 3, 2010, a liability has been recorded of $640 which relates to the statutory notice requirement. The liability is recorded on the balance sheet within accounts payables and accrued liabilities. Management estimates that there is a maximum additional exposure of $437 that could occur in the event that the Company does not achieve the future planned production levels and related layoff recalls; however, management believes that there is a high probability that the planned business levels will be achieved in the future and therefore the Company has not recorded the maximum amount.

19. 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.

20. COMPARATIVE FIGURES

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