March 21, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS AND 52-WEEKS ENDED JANUARY 2, 2011

Information in this Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of NFI (as defined below) is supplemental to, and should be read in conjunction with, NFI's consolidated financial statements (including notes) for the 52-week period ended January 2, 2011 ("Fiscal 2010"). 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 2, 2011, 49,475,279 Common Shares were outstanding 49,455,279 of which were represented by IDSs. Each IDS represents one common share and C$5.53 principal amount of Subordinated Notes. Unless otherwise stated or the context otherwise requires, references to the "Issuer" refer, collectively, to NFI and NFI ULC. References in this MD&A to "New Flyer" or the "Company" are to New Flyer Holdings, Inc. ("NFL Holdings") and its consolidated subsidiaries immediately prior to, and to New Flyer Industries Inc. and its consolidated subsidiaries immediately following, the consummation of the transactions 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 determined that NFI was deemed to be the primary beneficiary of NFL Holdings in accordance with CICA Accounting Guideline-15 ("AcG-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.

On June 24, 2010, the Company announced that it completed the retained interest conversion transaction, resulting in the issuance of 2,152,179 IDS, representing approximately 4% of the outstanding IDSs, in exchange for all of the issued and outstanding 463,875 Class B common shares ("Class B Shares") and 2,053,657 Class C common shares ("Class C Shares") of NFI's subsidiary, NFL Holdings, indirectly held by certain current and former members of management (the "Retained Interest Conversion"). As a result, NFI now holds 100% of the economic and voting interest in NFL Holdings, and therefore it is no longer considered an investment in a variable interest entity ("VIE") under AcG-15. This change in classification does not impact the consolidated financial statements as the Company continues to fully consolidate NFL Holdings following CICA section 1601. 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, competition and aggressive and reduced pricing in the industry, material losses and costs may be incurred as a result of product warranty issues, material losses and costs may be incurred as a result of product liability claims, changes in Canadian or United States tax legislation, the Company's success depends on a limited number of key executives who the Company may not be able to adequately replace in the event that they leave the Company, the absence of fixed term customer contracts and the termination of contracts by customers for convenience, the current "Buy-America" legislation and 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, the availability of labour could have an impact on production levels, the ability of the Company to successfully execute strategic plans and maintain profitability and risks related to acquisitions. The Issuer cautions that this list of factors is not exhaustive. These factors and other risks and uncertainties are discussed in the Issuer's press releases and materials filed with the Canadian securities regulatory authorities and are available on SEDAR at www.sedar.com.

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

DEFINITIONS OF EBITDA, ADJUSTED EBITDA AND 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 – the former Class B Shares and Class C Shares; fair value adjustment to embedded derivatives; non-cash impact of embedded derivatives and distributions on the former Class B Shares and Class C Shares. References to "Adjusted EBITDA" are to EBITDA after adjusting for: the effects of certain non-recurring and/or non-operations related items that have impacted the business and are not expected to recur, including business acquisition related costs, warranty expense assumed from the ISE Corporation bankruptcy, 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"), 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) and the Retained Interest Conversion and related transactions costs (described in note 1(a) of the consolidated financial statements of NFI for Fiscal 2010. The Retained Interest Conversion, 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 Shares and Class C Shares, costs related to the Follow-on Offerings, business acquisition related costs, warranty expense assumed from ISE bankruptcy, 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 the leading provider of aftermarket parts and support. The Company operates three manufacturing facilities in Winnipeg, MB, St. Cloud, MN and Crookston, MN (all ISO 9001, ISO 14001 and OHSAS 18001 certified), as well as a bus interior parts manufacturing facility in Elkhart, Indiana. The Company also has three parts distribution centers in Winnipeg, MB, Erlanger, KY and Fresno, CA. With a skilled workforce of over 2,000 employees, New Flyer is the technology leader in the heavy-duty transit bus market, offering the broadest and most advanced product line in the industry. New Flyer’s mission statement is: To deliver the best bus value and support for life.

Industry Overview

Heavy-Duty Transit market

Heavy-duty transit buses are the backbone of intra-city urban public transportation systems throughout the United States and Canada. Municipal and other local transit authorities are the principal purchasers of heavy-duty transit buses and their fleets 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 or gasoline electric hybrid systems, compressed natural gas (“CNG”) or liquid natural gas (“LNG”) systems, zero emission electric trolleys and select hydrogen fuel cell hybrid systems. There are development efforts being undertaken in the industry by certain suppliers to produce an all-electric propulsion system for use in transit buses. There continues to be a trend based on congested cities and environmental concerns for the expansion of transit services and for the exploitation of new technologies to enhance transit’s “green” potential.

Recent Ridership Trends

In the United States, total public transit ridership across all modes hit a 50-year high in 2008 with the American Public Transportation Association (“APTA”) reporting more than 10.5 billion trips taken on transit systems in the U.S. However, as a result of the economic downturn and increased unemployment levels, ridership has declined in recent years (it is estimated that 60% of transit trips are employment-related). According to APTA, U.S. transit bus ridership declined 1.9% in the 4th quarter of 2010 year over year and declined 2.4% in 2010 over 2009, indicating that the rate of decline may be slowing. During late February and early March, 2011, U.S. gasoline prices increased and APTA has reported that transit systems are experiencing slight increases in ridership.

In Canada, the Canadian Urban Transit Association reports that ridership increased 2.8% in the first half of 2010 compared to the same period the previous year.

Demand for Heavy-Duty Transit Buses

Bus manufacturers have some forward order visibility due to the fleet planning, budgeting and funding application processes its customers undertake in order to purchase new vehicles. New buses are generally ordered up to one year in advance of delivery, and because the funds for base order bus purchases under procurements are generally approved and allocated at the time the base order is made, cancellations are rare.

The U.S. recession has had a delayed impact on the transit industry as local tax revenues fell dramatically and budgets for many transit agencies were cut. As a result, many agencies reduced their operations and services by cutting routes and laying off employees, which resulted in buses becoming idle, thereby deferring their replacement. Other agencies have met the funding challenges by reducing planned new bus purchases. As a result of these events, management estimates new orders in 2010 from transit agencies declined by 10 to 15 percent, thereby greatly increasing competition among manufacturers for the lower demand of buses. While most transit bus procurements are, at face value, driven by technical specification requirements, purchasing decisions are ultimately made on price. Management notes that bus competition among the major bus manufacturers in late 2010 and early 2011 has been the most intense in several years with extremely aggressive pricing in response to public tenders as all manufacturers strive to keep their production facilities operating. It is the Company's experience that the vast majority of buses are procured by public tender.

The Company tracks a "bid universe" or "pipeline" of anticipated heavy-duty transit bus order activity within a five-year horizon. This includes forecasted orders, active bids, active option quotations to be submitted and pending bid awards and option orders. While the pipeline has remained relatively stable over the past several years, it largely reflects the cumulative anticipated needs of the universe of transit bus customers, rather than funded opportunities. Management estimates there are approximately 13,000 EUs in New Flyer's current pipeline. However, management believes that although the transit bus potential remains strong in the near term, many customers are deferring procurements and as a result, management expects further price pressure on future business in the near and medium terms.

Funding sources - United States

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. State, county, and municipal taxes comprise the principal source of the "local match" funding required for agencies to qualify for the FTA capital grants. In the wake of the recession, municipal budgets have been under extreme pressure and the ability of many transit agencies to provide the local match funding has been greatly compromised.

Funding sources - Canada

Historically, purchases of new transit buses in Canada have been funded primarily by provincial and municipal governments. Recognizing the infrastructure deficit in Canadian cities and the role transit can play to fight climate change, reduce congestion and increase quality of life, since 2003, successive federal governments have funded transit capital projects. Some cost share funding for public transit projects and new bus purchases has been provided since 2003 by other federal programs such as the Canadian Strategic Infrastructure Fund and the Infrastructure Canada Program. Transit-only capital funds are also delivered to all provinces through the public transit funds and capital trust programs with the balance funded through debt development levy or other means.

Competitive Environment

Price, engineering to customer specification, styling, product quality, on-time delivery, established track record, strong customer relationships and financial strength are key factors in winning bus manufacturing contracts. The competitive landscape of the industry in the United States and Canada is limited to five major competitors including: New Flyer, Gillig Corporation, North American Bus Industries ("NABI"), Orion and Nova Bus.

Gillig Corporation is privately owned by Henry Crown & Co., NABI is also privately owned by Cerberus Capital Management, L.P. Orion is owned by Daimler Trucks North America and Nova Bus is owned by Volvo Truck and Bus of Sweden. New Flyer is the only publicly-traded bus manufacturer in the United States and Canada.

For a number of years New Flyer had the widest product portfolio and in certain competitions were able to uniquely meet customer requirements. In the last three years a number of competitors have expanded their product offerings to compete directly with New Flyer. In 2010 Gillig developed a CNG bus and Nova Bus began manufacturing its articulated bus in 2009. NABI has recently been awarded a large order with Dallas that is still pending; however, industry participants generally believe NABI continues to be dependent on two major transit authorities for the bulk of their annual production. Similarly, it is generally believed in the industry that Orion relies primarily on three major customers with unique bus products.

Competition from outside North America has been limited for many years as international manufacturers are unable to meet Buy America regulations, which forces customers to apply to the FTA for special waivers.

Aftermarket Parts

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

As a result of the economy, management now estimates that the total U.S. and Canadian market size is approximately $700.0 million on an annual basis, a decrease of $50.0 million from previous estimates of the market size in the prior year. The market contracted in 2010 from 2009 as transit systems began purchasing parts as needed rather than for inventory; this was due to operating budget cuts, which management expects to see continue through 2011.

The total Canadian aftermarket parts market continues to display growth at a rate slightly higher than inflation.

2010 Year in Review

Despite a turbulent economy, Fiscal 2010 was a challenging yet relatively successful year for New Flyer.

While the Company achieved bus deliveries of over 2,000 EUs for the fourth straight year, total deliveries decreased from 2009 by 10.4%. With the reduced deliveries Fiscal 2010 revenue of $983.8 million decreased by 10.6% compared to Fiscal 2009 revenue of $1.1 billion. However, Fiscal 2010 consolidated Adjusted EBITDA of $97.1 million decreased only 2.9% compared to Fiscal 2009. Liquidity of $123.5 million as at January 2, 2011, improved $42.8 million during Fiscal 2010 due to positive cash flows from a large contract. Fiscal 2010 Distributable Cash of C$73.3 million (C$1.48 per unit) exceeded Cash Distributions by C$15.7 million (C$0.32 per unit) resulting in a Payout Ratio of 78.5% compared to Fiscal 2009 payout ratio of 72.8%. Payout Ratio since IPO in 2005 has averaged 79.9%.

2010 was also a year filled with many significant milestones and positive achievements for the company, including: New Flyer celebrating its 80th anniversary, delivery of its 30,000th bus, delivery of the first newly-designed Xcelsior production bus, creation of a large and innovative contract with OC Transpo (the transit agency for the City of Ottawa, Canada) that emphasized the Company's life cycle management strategy, acquisition of the assets and business of TCB Industries, LLC, redemption of the remaining Class B Shares and Class C Shares held by New Flyer LLC and the issuance of new IDSs to the management optionholders and, New Flyer becoming the first North American transit bus manufacturer to successfully complete Cummins EPA 2010 engines requirements.

As well, the Company received a number of awards, including being named, for the sixth consecutive year, as one of Canada's Top 100 Employers for 2011 by Mediacorp. New Flyer was also named one of the Top Employers for Canadians over 40 and, for the third consecutive year, it was named one of Canada's Greenest Employers for 2010.

Management estimates that the industry delivered approximately 5,900 new transit buses in 2010, slightly down from approximately 6,000 in 2009. In management's estimate, the New Flyer's bus products represented approximately 34% of deliveries in the combined United States and Canadian market in 2010. Management believes that New Flyer has held the number one market share position in the combined United States and Canadian heavy-duty transit bus market since 1999 and expects the Company to maintain this leading position in 2011. New Flyer's market share in 2010 decreased from approximately 37% in the preceding year, in the wake of extremely aggressive price competition.

Operating funds for U.S. transit agencies have been severely impacted by the recession and have resulted in many transit agencies cutting service, raising fares, and laying off employees. State tax collections in the United States improved in 2010 over 2009, with an increase of 4.5% in the third quarter. This is the third consecutive quarter U.S. States have reported growth; however, collections are still lower than 2008 levels. Management believes that state fiscal conditions will continue to remain fragile for the immediate future.

New Flyer differs from its competitors by having the broadest and most diverse product offering in the industry, a strong reputation for quality and innovation, the largest production capacity and by being a leading provider of aftermarket parts and support. As a result, management believes that New Flyer is well positioned to continue to compete successfully. However, the proliferation of models offered by competitors has increased over the past year, also contributing to the more aggressive competitive environment in which New Flyer operates.

During Fiscal 2010, the Company received awards from customers of 2,752 EUs, for a total value of $1.1 billion. This order activity is made up of new firm and new option orders of 1,927 EUs and exercised options of 825 EUs. This allowed the Company to maintain a total order backlog (including firm orders and options) of approximately $3.68 billion (representing 8,712 EUs) as at January 2, 2011 which remained fairly stable compared to approximately $3.85 billion (representing 8,990 EUs) as at January 3, 2010.

Some of the available options are unable to be assigned to third-party agencies because of local procurement rules, and certain options are unlikely to ever be exercised because they represent models that are not widely used in the industry. In addition, certain agencies secure options based on specific growth and replacement plans which may or may not crystallize. For these reasons, in some cases options are neither exercised nor assigned to third parties, but are simply allowed to expire by the transit agency. Although historically such options have represented a significant source of revenue for the Company, there can be no assurance that customers will continue to exercise or assign these options in the future. New Flyer continues to monitor and actively promote the conversion of options to customers; and where not required by the transit authorities holding the options, they are actively brokered to other customers. New Flyer experienced an increase in the number of options that expired in 2010 (from 130 in 2009 to 182 in 2010). Given the current market conditions, management believes that option conversion rates may continue to slow in Fiscal 2011.

The Company continued its focus on Operational Excellence ("OpEx") which management believes resulted in dramatic improvements to facilities, safety and first time quality. In addition, the Company launched a number of footprint rationalization efforts and make/buy projects that management anticipates will improve New Flyer's cost competitiveness going forward. Management continued to strengthen its partnership with employees with comprehensive training administered through the New Flyer Institute and ratification of a new five-year collective bargaining agreement with the members of the Communications Workers of America union at the Company's Crookston facility.

New Flyer's Aftermarket Parts revenues have grown significantly over the last five years with a compound annual growth rate of nearly 12%. Part of the Company's long-term strategy is to implement warehousing and distribution capability to provide industry-leading response times to all of New Flyer's customers in Canada and the United States. As a result, there is currently three parts distribution centers located to significantly improve response times and minimize transportation costs to our customers, which provides a strategic advantage over our competitors.

Management believes that the Company has increased its Aftermarket Parts market share by 1% to 16% in 2010 during a time when the current U.S. parts aftermarket has contracted approximately 7%. Management believes New Flyer's aftermarket parts business provides the following competitive advantages over its competition: widest original equipment product assortment, most distribution centers in North America and tremendous industry knowledge and the ability to cross reference and reverse engineer products to create solutions for customers. Its private label line of "Kinetik" parts is also a unique brand in the industry, providing a high quality and value-priced alternative for customers. Approximately sixty-nine percent of revenue in 2010 was from competitive tenders, which comprises contracts and daily quotes and the balance of revenue was from proprietary parts. Purchasing decisions are based on price, availability and quality, although there are some variations in the priority sequence between the different customers.

On January 12, 2011, ISE Corporation ("ISE"), the Company's supplier of hybrid propulsion systems or integration components, received approval from the United States Bankruptcy Court to sell substantially all of ISE's assets to Bluways USA, Inc. ("Bluways"), a subsidiary of a Belgian company The sale did not include the warranty obligations related to certain buses previously sold by New Flyer. As a result, the Company has assumed certain warranty obligations for ISE components relating to such buses and has recorded a provision of $8.7 million which is included in non-cash charges in 2010 Q4. To assist the Company in supporting its customer's, New Flyer has acquired a license from Bluways for certain intellectual property pursuant to a license agreement. New Flyer's order backlog does not contain any orders for buses incorporating ISE's hybrid propulsion systems.

2011 Outlook

Overall, funding for 2011 in the U.S. market is expected to be as tough or tougher than 2010. On March 4, 2011 President Obama signed the Continuing Appropriations and Surface Transportation Extensions Act of 2011 that was recently approved by the U.S. Senate and House of Representatives, a continuing resolution ("CR") to extend the funding of federal programs, including programs administered by the Department of Transportation and the Transportation Security Administration at fiscal year ("FY") 2010 levels through September 30, 2011. The bill also includes an extension of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users ("SAFETEA-LU") through September 30, 2011. This is the seventh extension of SAFETEA-LU since the original authorization expired on September 30, 2009. This CR now makes FY 2011 funding available to transit programs, approximately equal to the full FY 2010 amount.

However, U.S. funding concerns are more real and immediate at the state and local levels, and with no reliable data available to predict the impact on the amount of new buses that may be purchased in 2011.

Given the fundamentally different funding and operating models, management expects the Canadian market to remain relatively stable in 2011. Based on a bottom-up customer forecast, management forecasts total 2011 deliveries to the overall Canada/US market to decline by 13.5% to approximately 5,100 EUs.

With several competitors scrambling to fill open production slots in 2011, two competitors allegedly operating on reduced or alternating work weeks, and one competitor announcing an extended spring/summer shutdown at their bus shell manufacturing facility, management expects significant pricing pressure will continue in 2011. New Flyer will bid aggressively to maintain its industry leading backlog, but will also continue its focus on converting options that were priced in previous years.

New Flyer plans for an average production rate in Fiscal 2011 to be approximately 36 EUs per week (largely 40 foot buses - in contrast to 2010 which were primarily 60 foot articulating buses). Management anticipates that smaller order sizes may impact work in process inventory ("WIP") levels during Fiscal 2011, they tend to increase operating complexities, but estimates that the level of WIP will vary in the range of 200 to 220.

Management plans for continued OpEx efforts to further reduce the direct cost of bus manufacturing and to reduce overhead to allow for better price competitiveness. On March 18, 2011, the Company eliminated 26 current vacancies and reduced 78 salaried and indirect hourly positions – largely from its Winnipeg based facilities. These reductions follow from the 24 positions that were eliminated in December 2010.

New Flyer now anticipates rationalization and consolidation in the Canadian and United States bus manufacturing industry to occur in the coming years and is committed to continue as the leading market player. Management remains committed to its product development and control plan to fully migrate to the Xcelsior next generation bus platform by 2013. Further, the Company will maintain its approach to selling part and service solutions in an effort to assist customers in reducing their total costs of bus operation and ownership. Management expects New Flyer's bus delivery market share to increase in 2011.

Fiscal 2010 and Fourth Quarter Financial Results

The Company achieved consolidated revenue of $204.8 million for the 13-week period ended January 2, 2011 ("2010 Q4") a decrease of 17.9% compared to consolidated revenue for the 13-week period ended January 3, 2010 ("2009 Q4") of $249.4 million. The decrease is primarily due to decreased average selling price per equivalent unit and is attributable to a 2010 Q4 sales mix comprised of a very high percentage of articulated buses when comparing to 2009 Q4, as the total bus deliveries of 499 EUs in 2010 Q4 remained at a consistent level when compared to 2009 Q4 deliveries of 490 EUs. Bus manufacturing revenue in 2010 Q4 of $180.2 million decreased by 19.2% compared to bus manufacturing revenue of $223.1 million in 2009 Q4, primarily resulting from a 20.7% decrease in average selling price per EU to $361.1 thousand in 2010 Q4 from $455.3 thousand in 2009 Q4. This decrease is mainly due to increased sales in 2009 Q4 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 EU during 2009 Q4. Another contributing factor of the overall decrease in consolidated revenue was 2010 Q4 aftermarket operations revenue of $24.6 million, which decreased 6.3% compared to $26.3 million in 2009 Q4 primarily a result of lower volumes during 2010 Q4.

For Fiscal 2010, the Company's consolidated revenue of $983.8 million decreased by 10.6% compared to consolidated revenue for 53 week period ending January 3, 2010 ("Fiscal 2009") of $1.1 billion. The Company experienced decreased volume in Fiscal 2010 due to: a decline in market demand resulting from the downturn in the U.S. economy which caused capital funding issues with U.S. State and local governments, a 3% decline in New Flyer's market share and one less week of deliveries compared to Fiscal 2009. The reduced market share in Fiscal 2010 is primarily due to the Company focusing on converting options with historical pricing rather than directly competing with low price bidders. The Company's substantial total order backlog allowed management to respond to new bids in a rational manner as opposed to some competitors with much smaller order books. Fiscal 2010 bus manufacturing revenue contributed to the majority of the Company's consolidated revenue decrease as a result of lower delivery levels in Fiscal 2010 compared to Fiscal 2009. Bus manufacturing revenue during Fiscal 2010 totaled $878.1 million compared to $991.7 million in Fiscal 2009, representing a decrease of 11.5%. Bus deliveries in Fiscal 2010 were 2,023 EUs, which represents a decrease of 10.4% compared to Fiscal 2009 bus deliveries of 2,257 EUs. Fiscal 2010 aftermarket revenue of $105.7 million decreased by 2.3% compared to Fiscal 2009 aftermarket revenue of $108.2 million, as a result of decreased customer demand. The decrease in Fiscal 2010 aftermarket operations revenue is primarily a result of lower volumes during the 13-week period ended April 4, 2010 ("2010 Q1") due to one less week in this quarter compared to 14-week period ended April 5, 2009 ("2009 Q1"). During Fiscal 2010, aftermarket operations revenue increased in the Canadian market, while experiencing some reduction in sales in the U.S. market throughout Fiscal 2010. Management believes that the Company has increased its market share to 16% in the aftermarket segment during a time when the current U.S. market has contracted approximately 7%.

Consolidated Adjusted EBITDA for 2010 Q4 totaled $17.7 million compared to $25.0 million in 2009 Q4 which represents a decrease of 29.2%. The decrease in 2010 Q4 consolidated Adjusted EBITDA is primarily due to a sales mix that included contract runs of lower average bus contract margins and a decrease in aftermarket earnings, offset somewhat by production efficiencies generated from OpEx efforts and the appreciation in the value of the Canadian dollar compared to the U.S. dollar. 2010 Q4 bus deliveries were primarily to OC Transpo. Although the price for these new buses had been reduced from previous orders, management anticipates that combined profitability through the bus sales, parts sales and future used bus sales will provide an appropriate total return to the Company once all revenue related to this contract is realized. Profit margins can vary significantly between orders due to factors such as pricing pressure, order size and product type. Adjusted EBITDA from bus manufacturing operations per EU can be volatile on a quarterly basis and therefore, management believes that a longer term view should be taken when comparing bus manufacturing operations margins. 2010 Q4 bus manufacturing operations Adjusted EBITDA of $12.4 million (6.9% of revenue) decreased by 34.3% compared to bus manufacturing operations Adjusted EBITDA of $18.9 million (8.3% of revenue) in 2009 Q4. 2010 Q4 aftermarket operations Adjusted EBITDA of $5.2 million (21.3% of revenue) decreased by 13.4% compared to $6.1 million (23.0% of revenue) in 2009 Q4, primarily due to a decrease in sales volume with lower profit margins in the current period as 2009 Q4 Adjusted EBITDA benefited from a positive foreign exchange impact.

Fiscal 2010 consolidated Adjusted EBITDA of $97.1 million decreased 2.9% compared to Fiscal 2009 consolidated Adjusted EBITDA of $100.1 million due to a number of factors, including: reduced deliveries, tighter margins due to competitive pricing pressures, which were partially offset by foreign exchange gains and productivity gains resulting from OpEx activities and cost cutting measures. Bus manufacturing operations Adjusted EBITDA of $73.1 million for Fiscal 2010 decreased 4.1% compared to $76.2 million for Fiscal 2009 bus manufacturing operations Adjusted EBITDA. This decrease of $3.2 million is a result of $11.4 million due to decreased volume of bus sales (10.4% decrease in deliveries), $5.9 million due to a less favourable sales margin mix offset by a $14.1 million positive foreign exchange impact from increased Canadian bus deliveries. Aftermarket operations Adjusted EBITDA for Fiscal 2010 of $24.1 million represents an increase of 0.9% over Fiscal 2009 aftermarket operations Adjusted EBITDA of $23.8 million.

The Company reported a net loss of $15.9 million in 2010 Q4 compared to net loss of $11.3 million in 2009 Q4 primarily due to the $7.8 million decrease in earnings from operations and the one-time charge of $8.7 million relating to ISE's bankruptcy, offset by the decrease in income taxes in the current period. The decrease in income taxes of $8.4 million in 2010 Q4 as compared to 2009 Q4 was primarily a result of a decrease of $7.5 million in future income taxes.

Fiscal 2010 net earnings of $3.9 million increased compared to Fiscal 2009 net loss of $30.4 million, primarily as a result of non-cash charges of $49.6 million in Fiscal 2010 compared to non-cash charges of $64.3 million during Fiscal 2009. The decrease in non-cash charges is primarily attributable to a $5.0 million decrease in fair value adjustment to other liabilities, Class B Shares and Class C Shares and $19.3 million decrease in unrealized foreign exchange losses as a result of the Canadian dollar denominated Subordinated Notes that mature in 2020 offset by the $8.7 million warranty expense assumed due to the ISE bankruptcy. The Fiscal 2010 net earnings was also favourably impacted by a decrease in income taxes of $26.4 million as compared to Fiscal 2009 resulting primarily from recognizing previously unrecognized future tax assets and the revision of estimated valuation allowance. The Company's net earnings (losses) can be subject to a high degree of volatility from fiscal period to fiscal period as a result of income taxes and non-cash accounting adjustments.

The Company generated Distributable Cash of C$10.5 million during 2010 Q4 and declared distributions of C$14.5 million, which represents a 2010 Q4 payout ratio of 137.3%. By comparison, in 2009 Q4, the Company generated Distributable Cash of C$18.1 million and declared distributions of C$14.4 million, resulting in a payout ratio of 79.5%. The decrease in 2010 Q4 Distributable Cash is primarily a result of reduced cash provided by operations in 2010 Q4. During Fiscal 2010, New Flyer generated Distributable Cash of C$73.3 million and declared distributions of C$57.6 million, representing a payout ratio of 78.5%. In comparison, Fiscal 2009 Distributable Cash and declared distributions were C$79.1 million and C$57.6 million, respectively, which represent a payout ratio of 72.8%. The decrease in Fiscal 2010 Distributable Cash is primarily a result of the strengthening Canadian dollar during Fiscal 2010 as compared to the U.S. dollar and an increase in maintenance capital expenditures by $0.8 million. Cumulatively, since the Issuer's initial public offering on August 19, 2005 (the "IPO"), the Company has generated Distributable Cash of C$360.6 million and has declared distributions of $288.2 million, resulting in a cumulative surplus of C$72.4 million and a payout ratio of 79.9%. The Company has made monthly distributions of C$0.0975 per IDS since July, 2007 and currently management does not have plans to change the monthly distribution.

During 2010 Q4 the Company increased its cash by $12.3 million primarily as a result of reducing the investment in non-cash working capital. During Fiscal 2010, the Company also reduced its investment in non-cash working capital by $36.7 million, primarily as a result of reduced accounts receivable related to the favourable milestone billing associated with the delivery of 203 Ottawa buses (406 EUs) and reduced inventory levels resulting from continued OpEx efforts in the bus manufacturing operation. The number of units in WIP inventory reduced from a high point of 299 EUs at the end of 2010 Q1 to 209 EUs at January 2, 2011. The reduction of WIP and receipt of Ottawa's milestone payments were the primary contributors to the $42.8 million increase in the Company's cash in Fiscal 2010. The cash balance at January 2, 2010 was $73.5 million, which has significantly improved from $30.7 million of cash at January 3, 2010. The $73.5 million of cash on hand at January 2, 2011 will decrease in the first quarter of 2011 as the Company delivers the remaining Ottawa buses.

The January 2, 2011 liquidity position of $123.5 million is comprised of cash of $73.5 million and a $50.0 million secured revolving credit facility. As at January 2, 2011, 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.

SELECTED FINANCIAL AND OPERATING INFORMATION

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

QUARTERLY AND ANNUAL FINANCIAL INFORMATION

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

Fiscal Period	Quarter	Revenue	Earnings from Operations	Net earnings (loss)	EBITDA(1)	Adjusted EBITDA(1)	Earnings (loss) per share(3)
2010	Q4	$ 204,791	$ 11,428	$ (15,879)	$ 8,988	$ 17,672	(0.32)
	Q3	255,447	19,071	(3,140)	25,177	25,182	(0.06)
	Q2	280,540	26,043	35,853	31,942	32,069	0.75
	Q1	242,980	16,518	(12,960)	22,195	22,195	(0.27)
	Total	**$ 983,758**	**$ 73,060**	**$ 3,874**	**$ 88,302**	**$ 97,118**	**0.08**
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**

						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)
2010	Q4	241	467	499	209	206	3
	Q3	262	505	526	241	236	5
	Q2	299	508	545	262	235	27
	Q1	245	507	453	299	287	12
	Total	**245**	**1,987**	**2,023**	**209**	**206**	**3**
2009	Q4	320	415	490	245	237	8
	Q3	403	533	616	320	309	11
	Q2	341	620	558	403	375	28
	Q1	284	650	593	341	300	41
	Total	**284**	**2,218**	**2,257**	**245**	**237**	**8**
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**

COMPARISON OF 2010 AND 2009 ANNUAL AND FOURTH QUARTER RESULTS

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

	13-Weeks Ended January 2, 2011	13-Weeks Ended January 3, 2010	52-weeks Ended January 2, 2011	53-weeks Ended January 3, 2010
Statement of Earnings Data				
Revenue				
Canada	$ 128,489	$ 112,925	$ 269,943	$ 237,318
U.S.	51,686	110,181	608,139	754,385
Bus manufacturing operations	180,175	223,106	878,082	991,703
Canada	8,731	9,373	37,585	35,127
U.S.	15,885	16,907	68,091	73,036
Aftermarket operations	24,616	26,280	105,676	108,163
Total revenue	$ 204,791	$ 249,386	$ 983,758	$ 1,099,866
Earnings from operations	$ 11,428	$ 19,249	$ 73,060	$ 77,487
(Loss) earnings before interest and income taxes	(5,316)	7,285	47,352	35,762
Net (loss) earnings	(15,879)	(11,301)	3,874	(30,380)
EBITDA[(1)]	8,988	24,959	88,302	100,070
Adjusted EBITDA[(1)]				
Bus manufacturing operations including realized foreign exchange losses/gains	12,429	18,907	73,060	76,222
Aftermarket operations	5,243	6,052	24,058	23,848
Total Adjusted EBITDA[(1)]	$ 17,672	$ 24,959	$ 97,118	$ 100,070
Other Data (unaudited)				
Canada	390	143	729	591
U.S.	109	347	1,294	1,666
Total deliveries (equivalent units)[(2)]	499	490	2,023	2,257
Total capital expenditures	$ 1,596	$ 4,119	$ 7,752	$ 9,731
New options awarded	$ 45,529	$ 184,087	$ 378,033	$ 573,945
New firm orders awarded	70,475	24,166	371,709	199,936
Exercised options	30,759	103,136	344,945	605,887
Total firm orders	$ 101,234	$ 127,302	$ 716,654	$ 805,823

(Unaudited, US dollars in thousands)	January 2, 2011		January 3, 2010		December 28, 2008	
Selected Balance Sheet Data						
Total assets	$ 811,422		$ 869,889		$ 899,344	
Long-term financial liabilities	539,345		544,028		415,814	
Other Data (unaudited)		Equivalent Units(2)		Equivalent Units(2)		Equivalent Units(2)
Firm orders - USA	$ 694,141	1,518	$ 884,347	1,876	$ 1,012,099	2,196
Firm orders – Canada	138,517	379	93,407	206	143,313	302
Total firm orders	832,658	1,897	977,754	2,082	1,155,412	2,498
Options – USA	2,761,784	6,610	2,653,326	6,365	2,625,454	6,164
Options - Canada	83,713	205	217,042	543	291,563	869
Total options	2,845,497	6,815	2,870,368	6,908	2,917,017	7,033
Total Backlog	$ 3,678,155	8,712	$ 3,848,122	8,990	$ 4,072,429	9,531

Equivalent Units in Backlog (unaudited)	52 Weeks Ended January 2, 2011		53 Weeks Ended January 3, 2010		52 Weeks Ended December 28, 2008	
	Firm orders	Options	Firm orders	Options	Firm orders	Options
Beginning of period	2,082	6,908	2,498	7,033	2,844	4,072
New orders	1,013	914	444	1,402	765	4,133
Options exercised	825	(825)	1,397	(1,397)	1,093	(1,093)
Shipments	(2,023)	—	(2,257)	—	(2,164)	—
Cancelled/expired	—	(182)	—	(130)	(40)	(79)
End of period	1,897	6,815	2,082	6,908	2,498	7,033

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

2011	1,132
2012	1,350
2013	2,705
2014	752
2015	876
Total options	6,815

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 60-foot 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 2, 2011**	**13-Weeks Ended January 3, 2010**	**52-weeks Ended January 2, 2011**	**53-weeks Ended January 3, 2010**
Net (loss) earnings	$ (15,879)	$ (11,301)	$ 3,874	$ (30,380)
Addback[(1)]				
Income taxes	(2,224)	6,179	(10,060)	16,344
Interest expense	12,787	11,678	51,912	48,152
Amortization	6,244	5,710	24,058	22,619
Gain on disposal of property, plant and equipment	(7)	—	(23)	(231)
Non-cash impact of embedded derivative	—	—	—	(36)
Fair value adjustment to embedded derivatives	—	—	—	787
Fair value adjustment to other liabilities – Class B and Class C Common Shares	—	3,565	22	4,967
Distributions on Class B and Class C Common Shares	—	729	1,626	1,646
Unrealized foreign exchange loss on non-current monetary items and forward foreign exchange contracts	8,067	8,399	16,893	36,202
EBITDA[(2)]	8,988	24,959	88,302	100,070
Business acquisition related cost [(3)]	—	—	132	—
Warranty expense assumed from ISE bankruptcy [(6)]	8,684	—	8,684	—
Adjusted EBITDA (US$) [(2)]	$ 17,672	$ 24,959	$ 97,118	$ 100,070
Adjusted EBITDA translated to C$ at an average foreign exchange rate[(5)]	$ 17,912	$ 26,764	$ 100,653	$ 113,159

RECONCILIATION OF CASH FLOW TO EBITDA AND ADJUSTED EBITDA

(Unaudited, US dollars in thousands)	13-Weeks Ended January 2, 2011	13-Weeks Ended January 3, 2010	52-weeks Ended January 2, 2011	53-weeks Ended January 3, 2010
Cash provided by operations	$ 17,689	$ 28,146	$ 70,710	$ 25,819
Addback[(1)]				
Changes in non-cash working capital items	(17,291)	(19,741)	(36,713)	11,299
Defined benefit funding	1,120	1,369	4,224	3,598
Defined benefit expense	(434)	(264)	(1,867)	(1,278)
Interest expense	13,027	11,848	50,603	46,986
Distributions on Class B and Class C Shares	—	729	1,626	1,646
Warranty expense assumed from ISE bankruptcy	(8,684)	—	(8,684)	—
Foreign exchange (loss) gain on cash held in foreign currency	1,401	(234)	2,003	148
Current income taxes[(4)]	2,160	3,106	6,400	11,852
EBITDA[(2)]	8,988	24,959	88,302	100,070
Business acquisition related cost [(3)]	—	—	132	—
Warranty expense assumed from ISE bankruptcy [(6)]	8,684	—	8,684	—
Adjusted EBITDA (US$) [(2)]	$ 17,672	$ 24,959	$ 97,118	$ 100,070
Adjusted EBITDA translated to C$ at an average foreign exchange rate[(5)]	$ 17,912	$ 26,764	$ 100,653	$ 113,159

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 acquisition of certain assets and business of TCB Industries, LLC.

(4) 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.

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

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

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 2, 2011	13-Weeks Ended January 3, 2010	52-Weeks Ended January 2, 2011	53-Weeks Ended January 3, 2010	Cumulative since IPO on August 19, 2005
Cash provided by operations	$ 17,689	$ 28,146	$ 70,710	$ 25,819	$ 109,162
Changes in non-cash working capital items[6]	(17,291)	(19,741)	(36,713)	11,299	3,921
Capital adjustments					
Maintenance capital expenditures[7]	(774)	(1,115)	(3,352)	(2,548)	(11,593)
Principal portion of capital lease payments	(665)	(474)	(2,478)	(1,679)	(7,436)
Non-recurring adjustments					
Follow-on Offerings related costs	—	—	—	—	963
Proceeds from sale of redundant assets	7	—	23	342	747
Fair market value adjustments [8]	—	—	—	—	15,713
Business acquisition related cost [15]	—	—	132	—	132
Withholding taxes[9]	—	—	—	—	9,111
Entity specific adjustments					
Distributions on Class B and Class C Shares[10]	—	729	1,626	1,646	65,100
Interest on Subordinated Notes forming part of IDSs[10]	9,350	8,484	36,426	32,647	133,591
Defined benefit funding[11]	1,120	1,369	4,224	3,598	17,387
Defined benefit expense[11]	(434)	(264)	(1,867)	(1,278)	(8,606)
Foreign exchange gain on cash held in foreign currency[12]	1,401	(234)	2,003	148	3,456
Distributable Cash (US$)[1]	10,403	16,900	70,734	69,994	331,648
U.S. exchange rate[2]	1.0136	1.0723	1.0364	1.1298	1.0873
Distributable Cash[1] (C$)	**10,544**	**18,122**	**73,309**	**79,079**	**360,597**
Distributable Cash per unit[14] (C$)	0.21	0.36	1.48	1.59	6.90
Summary of Cash Distributions:[3]					
Interest on Subordinated Notes forming part of IDSs (C$)	9,576	9,159	37,609	36,636	144,780
Dividends on Common Shares forming part of IDSs (C$)	4,896	4,683	19,229	18,732	71,555
Dividends on Class C Shares (C$)	—	644	1,398	1,567	69,575
Dividends on Class B Shares (C$)	—	145	316	354	7,305
Net loan (repaid from) advanced to New Flyer LLC (C$)[13]	—	(230)	(969)	315	(95)
Foreign currency impact on Class B and C dividends (C$)[4]	—	—	—	—	(4,956)
Total Cash Distributions (C$)	**14,472**	**14,401**	**57,583**	**57,604**	**288,164**
Total Cash Distributions per unit[14] (C$)	0.29	0.29	1.16	1.16	5.51
(Shortfall) excess of Distributable Cash (C$)	**(3,928)**	**3,721**	**15,726**	**21,475**	**72,433**
(Shortfall) excess of Distributable Cash per unit[14] (C$)	$ (0.08)	$ 0.07	$ 0.32	$ 0.43	$ 1.39
Payout ratio	137.3%	79.5%	78.5%	72.8%	79.9%

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 quarter of the Company's 2007 fiscal year. The boards of directors of the Issuer determines 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 2, 2011	**13-Weeks Ended January 3, 2010**	**52-Weeks Ended January 2, 2011**	**53-Weeks Ended January 3, 2010**	**Cumulative since IPO on August 19, 2005**
Total Cash Distributions (C$):					
Interest on Subordinated Notes (C$)	0.1936	0.1936	0.7744	0.7744	4.1570
Dividends on Common Shares (C$)	0.0989	0.0989	0.3956	0.3956	2.0007
Total Distribution (C$)[(3)]	0.2925	0.2925	1.1700	1.1700	6.1577
Issued and outstanding Common Shares including IDSs [(5)]	49,475,279	47,323,100	48,464,227	47,323,100	35,152,377
Dividends per Class C Share (C$):[(3)]					
Preferential Dividend (C$)	—	0.1665	0.2834	0.4183	2.2347
Residual Dividend (C$)	—	0.1470	0.3971	0.3448	1.8523
Total Cash Dividend (C$)	—	0.3135	0.6805	0.7631	4.0870
Issued and outstanding Class C Shares[(5)]	—	2,053,657	900,619	2,053,657	15,481,377
Dividends per Class B Share (C$):[(3)]					
Preferential Dividend (C$)	—	0.1665	0.2834	0.4183	2.2347
Residual Dividend (C$)	—	0.1470	0.3971	0.3448	1.8523
Total Cash Dividend (C$)	—	0.3135	0.6805	0.7631	4.0870
Issued and outstanding Class B Shares[(5)]	—	463,875	210,680	463,875	1,625,511
Total of all issued and outstanding Shares including IDSs[(5)]	49,475,279	49,840,632	49,575,526	49,840,632	52,259,265

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 during Fiscal 2010. 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 securityholders of record on the last business day of the previous month. On June 24, 2010, the Company announced the completion of the Retained Interest Conversion. As at January 2, 2011, NFL Holdings had only Class A common shares issued and outstanding, all of which were held by NFI.

(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.

(8) As a result of the revaluation of assets and liabilities resulting from the 2007 Offering, $15.7 million of the excess purchase price was allocated to inventory, prepaid expenses, deferred revenue and accounts payables and accruals as a fair market value adjustment, resulting in a subsequent non-cash charge to operating costs and expenses upon culmination of the earnings process.

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

(10) Distributions on Class B Shares 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.

(11) 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.

(12) 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.

(13) 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 Shares and Class C Shares when regular dividends payable by NFL Holdings were deferred. All inter-company loans with New Flyer LLC were repaid in full. Subsequent to the retained Interest Conversion, New Flyer LLC was dissolved and it no longer exists.

(14) 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 common shares including IDSs using the weighted average over the period.

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

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 2, 2011	52-Weeks Ended January 2, 2011	Fiscal 2009	Fiscal 2008
A. Cash flows from operating activities (excluding interest on Subordinated Notes forming part of IDSs and distributions on Class B and Class C Shares)	$ 27,039	$ 108,762	$ 60,112	$ 64,632
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)	9,748	72,049	71,411	69,231
C. Net (loss) earnings (excluding interest on Subordinated Notes forming part of IDSs and distributions on Class B and Class C Shares)	(6,529)	41,926	3,913	124,443
D. Earnings from operations (excluding interest on Subordinated Notes forming part of IDSs and distributions on Class B and Class C Shares)	11,428	73,060	77,487	68,647
E. Distributable Cash	10,403	70,734	69,994	65,156
F. Actual cash distributions paid or payable relating to the period	14,278	55,560	50,986	51,949
G. Excess of cash flows from operating activities (adjusted as described above) over cash distributions paid (A – F)	12,761	53,202	9,126	12,683
H. (Shortfall) 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)	(4,530)	16,489	20,425	17,282
I. (Shortfall) excess of net (loss) earnings (adjusted as described above) over cash distributions paid (C – F)	(20,807)	(13,634)	(47,073)	72,494
J (Shortfall) excess of earnings from operations (adjusted as described above) over cash distributions paid (D – F)	(2,850)	17,500	26,501	16,698
K. (Shortfall) excess of Distributable Cash over cash distributions paid (E – F)	(3,875)	15,174	19,008	13,207

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. As well, cash flows from operating activities and net loss/earnings 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".

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 2010 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 and current income taxes. 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 2, 2011, 16.6% (2009 – 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 Fiscal 2011 primarily as a result of the higher percentage of U.S. dollar denominated orders in the Company's backlog, which is a reversal of the Canadian dollar exposure the Company experienced in Fiscal 2010.

During Fiscal 2010, the Company entered into forward contracts to sell $72.5 million Canadian dollars in exchange for United States dollars at a weighted average agreed exchange rate of $1.0004, as compared to Fiscal 2009 when the Company purchased 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 well during Fiscal 2010, the Company entered into forward contracts to buy $3.8 million Euros in exchange for United States dollars at a weighted average agreed exchange rate of $1.2580. The settlements of the forward contracts were recorded as realized foreign exchange gains or losses in net earnings for the reported periods. 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 as the Company has elected not to use hedge accounting. During Fiscal 2010, the realized foreign exchange gains of $2.0 million was comprised of $1.5 million gain on settlement of foreign exchange contracts and a $0.5 million foreign currency gains due to translation of Canadian dollar denominated operations and distributions.

In an effort to expand the Company's its own line of "Kinetik" branded service parts, New Flyer has increased its sourcing of off shore suppliers. A number of these European suppliers have expressed an unwillingness to accept U.S. dollar as currency and as such the Company has increased its trading in Euros.

At January 2, 2011, the Company had $100.0 thousand Euro denominated foreign exchange forward contracts at a weighted average agreed exchange rate of $1.2599 that expired in January 2011. The related asset of $8.0 thousand 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, 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 was recorded on the balance sheet as a $0.4 million current derivative financial instrument asset.

Fiscal and Interim Periods

The Company's 2010 fiscal period is divided in quarters. The following table summarizes the number of weeks in the fiscal and interim periods presented for the Company:

	Period from January 4, 2010 to January 2, 2011 (Fiscal 2010)		**Period from December 29, 2008 to January 3, 2010 (Fiscal 2009)**	
	Period End Date	# of Weeks	Period End Date	# of Weeks
Quarter 1	April 4, 2010	13	April 5, 2009	14
Quarter 2	July 4, 2010	13	July 5, 2009	13
Quarter 3	October 3, 2010	13	October 4, 2009	13
Quarter 4	January 2, 2011	13	January 3, 2010	13
Fiscal year	January 2, 2011	52	January 3, 2010	53

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)	2010 Q4 (13-Weeks)	2009 Q4 (13-Weeks)	Fiscal 2010 (52-Weeks)	Fiscal 2009 (53-Weeks)
Bus Manufacturing Revenue	$ 180,175	$ 223,106	$ 878,082	$ 991,703
Aftermarket Revenue	24,616	26,280	105,676	108,163
Total Revenue	$ 204,791	$ 249,386	$ 983,758	$ 1,099,866
Earnings from operations	11,428	19,249	73,060	77,487
(Loss) earnings before interest and income taxes	(5,316)	7,285	47,352	35,762
Loss before income taxes	(18,103)	(5,122)	(6,186)	(14,036)
Net (loss) earnings for the period	(15,879)	(11,301)	3,874	(30,380)

Revenue

The consolidated revenue for 2010 Q4 of $204.8 million decreased 17.9% from the consolidated revenue for 2009 Q4 of $249.4 million, and the consolidated revenue for Fiscal 2010 of $983.8 million decreased 10.6% from the consolidated revenue for Fiscal 2009 of $1.1 billion.

Revenue from bus manufacturing operations for 2010 Q4 was $180.2 million, decreased 19.2% from $223.1 million in 2009 Q4, and revenue of $878.1 million for Fiscal 2010 decreased 11.5% from $991.7 million for Fiscal 2009. The decrease in 2010 Q4 revenue primarily resulted from a decrease in the average bus selling price during 2010 Q4, as the number of deliveries was similar in 2010 Q4 compared to 2009 Q4. The decrease in average bus selling price is attributed to a mix of products sold with a lower selling price, as 2009 Q4 included primarily hybrid buses and the Company's hydrogen fuel cell buses purchased by BC Transit and used during the Vancouver Winter Olympic Games. Total bus deliveries of 499 EUs in 2010 Q4 remained at a consistent level when compared to 2009 Q4 deliveries of 490 EUs. The decrease in revenue from bus manufacturing operations for Fiscal 2010 primarily resulted from a decrease in the average bus selling price during Fiscal 2010 and fewer deliveries in Fiscal 2010 compared to Fiscal 2009. Bus deliveries in Fiscal 2010 totaled 2,023 EUs representing a decrease of 10.4% as compared to 2,257 EUs in Fiscal 2009 resulting from lower production volume when comparing the respective periods. The Fiscal 2010 volume decrease is mostly due to reduced market demand, lower market share and one less week of deliveries during 2010 Q1, as 2009 Q1 included 14 weeks instead of the usual 13-week quarterly reporting period. As well, the average selling price of $434.1 thousand per EU during Fiscal 2010 decreased 1.2% from the average price per EU of $439.4 thousand during Fiscal 2009. This decrease in average selling price is the result of changes in the product sales mix, which included less sales of hybrid and the hydrogen fuel cell buses. A normalized average selling price without hydrogen fuel cell buses would have been $432.3 thousand per EU during Fiscal 2009.

The revenue from aftermarket operations in 2010 Q4 was $24.6 million compared to $26.3 million in 2009 Q4, which represents a decrease of 6.3%, while the aftermarket operations revenue in Fiscal 2010 of $105.7 million decreased 2.3% compared to $108.2 million in Fiscal 2009. The decrease in Fiscal 2010 aftermarket operations revenue is primarily a result of lower volumes during 2010 Q1 due to one less week in this quarter compared to 2009 Q1. During Fiscal 2010, aftermarket operations revenue has increased in the Canadian market, while experiencing some reduction in sales in the U.S. market throughout Fiscal 2010. Management believes that the Company has increased its market share in the aftermarket segment during a time when the current U.S. market has contracted approximately 7%.

Cost of sales

The consolidated cost of sales for 2010 Q4 of $174.8 million decreased by 17.5% from 2009 Q4 consolidated cost of sales of $211.8 million. Fiscal 2010 consolidated cost of sales of $841.7 million decreased by 11.7% from Fiscal 2009 of $953.1 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 2010 Q4 were $158.0 million compared to $193.8 million in 2009 Q4, a decrease of 18.5%. The cost of sales from bus manufacturing operations for Fiscal 2010 was $769.9 million as compared to $877.5 million in Fiscal 2009, a decrease of 12.3%.

This decrease in cost of sales primarily relates to 10.4% fewer deliveries in Fiscal 2010 as compared to Fiscal 2009 and smaller profit margins due to increased pricing pressure.

The cost of sales from aftermarket operations were $16.9 million in 2010 Q4 compared to $18.0 million in 2009 Q4, representing a decrease of 6.2%, primarily due to the corresponding decrease in revenue. The cost of sales from aftermarket operations in Fiscal 2010 of $71.8 million decreased 5.0% compared to $75.6 million in Fiscal 2009 primarily due to the corresponding decrease in revenue and the favourable foreign currency impact due to the appreciation in the value of the Canadian dollar against the U.S. dollar when comparing the two periods.

Selling, general and administrative costs and other expenses

The consolidated selling, general and administrative costs and other expenses for 2010 Q4 of $13.1 million increased 18.2% compared with $11.1 million in 2009 Q4. Consolidated selling, general and administrative costs and other expenses for Fiscal 2010 were $47.0 million which increased by 6.5% compared with $44.1 million in Fiscal 2009. The increase is primarily a result of a stronger 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 $6.2 million has been charged to earnings in 2010 Q4 as compared with $5.7 million in 2008 Q4. The amortization charges for Fiscal 2010 were $24.1 million as compared with $22.6 million in Fiscal 2009.

Realized foreign exchange loss (gain)

In 2010 Q4, the Company recognized a net realized gain of $0.8 million compared with a net realized loss of $1.5 million in 2009 Q4. In Fiscal 2010, the Company recognized a net realized gain of $2.0 million as compared with a net realized loss of $2.6 million in Fiscal 2009. The increase in realized foreign exchange gain is primarily as a result of the favourable settlement of foreign exchange transactions and realization of foreign exchange gains on working capital accounts.

Earnings from operations

The consolidated earnings from operations for 2010 Q4 in the amount of $11.4 million (5.6% of revenue) decreased 40.6% compared to earnings from operations in 2009 Q4 of $19.2 million (7.7% of revenue). In Fiscal 2010, the consolidated earnings from operations of $73.1 million (7.4% of revenue) decreased 5.7% compared to $77.5 million (7.0% of revenue) in Fiscal 2009.

The earnings from bus manufacturing operations for 2010 Q4 were $11.6 million compared to earnings of $20.4 million for 2009 Q4 (6.4% and 9.2%, respectively, of bus manufacturing revenue). The decrease in earnings during 2010 Q4 is a result of lower margins due to sales mix. In Fiscal 2010, the earnings from bus manufacturing operations were $71.0 million (8.1% of revenue) as compared to $78.8 million (7.9% of revenue) in Fiscal 2009, which represents a 9.9% decrease. The decrease results primarily from 10.4% fewer deliveries in Fiscal 2010 as compared to Fiscal 2009 offset by a slight improvement in bus manufacturing operations' margins.

The earnings from aftermarket operations of $5.2 million in 2010 Q4 decreased by 13.4% compared to 2009 Q4 earnings of $6.1 million. 2010 Q4 operations margin of 21.3% decreased as compared to 23.0% in 2009 Q4. In Fiscal 2010, the earnings from aftermarket operations were $24.1 million (22.8% of revenue), which represents a 0.9% increase as compared to $23.8 million (22.0% of revenue) in Fiscal 2009.

The consolidated earnings from operations in 2010 Q4 have been negatively impacted by $5.4 million in unallocated items compared with $7.2 million in 2009 Q4. Unallocated items in earnings from operations are comprised primarily of amortization and realized foreign exchange losses/gains. The unallocated charges in Fiscal 2010 were $22.0 million as compared with unallocated charges of $25.1 million in Fiscal 2009.

Unrealized foreign exchange loss

Unrealized foreign currency losses arise primarily from the revaluation of the Canadian dollar-denominated long-term debt and forward foreign exchange contracts. In 2010 Q4, the Company recognized a net unrealized loss of $8.1 million compared to a net unrealized loss of $8.4 million in 2009 Q4. During Fiscal 2010, the Company recognized a net unrealized loss of $16.9 million compared to a net unrealized loss of $36.2 million in Fiscal 2009. These results consist of the following:

(Unaudited, US dollars in thousands)	2010 Q4	2009 Q4	Fiscal 2010	Fiscal 2009
Unrealized loss on Canadian-denominated long-term debt	$ 8,022	$ 8,389	$ 16,734	$ 37,713
Unrealized loss (gain) on forward foreign exchanges contracts	129	(44)	412	(420)
Unrealized (gain) loss on other non-monetary assets/liabilities	(84)	54	(253)	(1,091)
	$ 8,067	$ 8,399	$ 16,893	$ 36,202

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

In 2010 Q4, the Company recorded loss before interest and income taxes of $5.3 million compared to earnings before interest and income taxes of $7.3 million in 2009 Q4. The Company recorded earnings before interest and income taxes of $47.4 million in Fiscal 2010 compared to earnings before interest and income taxes of $35.8 million in Fiscal 2009. Earnings before interest and income taxes have been impacted by non-cash items as follows:

(Unaudited, US dollars in thousands)	2010 Q4	2009 Q4	Fiscal 2010	Fiscal 2009
Non-cash charges (recovery):				
Fair value adjustment to other liabilities, Class B and Class C common shares	$ —	$ 3,565	$ 22	$ 4,967
Warranty expense assumed from ISE bankruptcy	8,684	—	8,684	—
Fair value adjustment to embedded derivatives	—	—	—	787
Non-cash impact of embedded derivatives	—	—	—	(36)
Unrealized foreign exchange loss	8,067	8,399	16,893	36,202
Gain on disposition of property, plant and equipment	(7)	—	(23)	(231)
Amortization	6,244	5,710	24,058	22,619
Total non-cash charges:	$ 22,988	$ 17,674	$ 49,634	$ 64,308

One of the most significant non-cash charges/recoveries is the unrealized foreign exchange loss on the Canadian-denominated long-term debt. The other significant non-cash charge is the one-time charge relating to the warranty expense assumed by the Company as a result of ISE's bankruptcy.

Absent these non-cash charges/recoveries, the 2010 Q4 EBIT would have been $17.7 million compared to $25.0 million in 2009 Q4, and $97.0 million in Fiscal 2010 compared to $100.1 million in Fiscal 2009.

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

The interest expense for 2010 Q4 was $12.8 million, while the total remained relatively unchanged when compared to $12.4 million in 2009 Q4, the individual elements included: a $0.8 million increase in the interest on the Subordinated Notes due to the issuance of additional IDSs which was offset by a $0.7 million decrease in distributions declared on the Class B Shares and Class C Shares in 2009 Q4, as these shares were previously cancelled as part of the Retained Interest Conversion.

The interest expense of $53.5 million in Fiscal 2010 increased 7.5% as compared to $49.8 million in Fiscal 2009. The increase of $3.7 million is mostly due to an increase in the interest on the Subordinated Notes as a result of the foreign currency translation impact of the stronger Canadian dollar against the U.S. dollar and the issuance of additional Subordinated Notes in connection with the Retained Interest Conversion.

Loss before income taxes

Loss before income taxes for 2010 Q4 was $18.1 million compared to loss before income taxes of $5.1 million in 2009 Q4 and loss before income taxes for Fiscal 2010 was $6.2 million compared to loss before income taxes of $14.0 million in Fiscal 2009. The difference in the loss before income taxes between these periods result from the non-cash charges as described in the preceding table and the $4.4 million decrease in earnings from operations in Fiscal 2010 compared to Fiscal 2009. The most significant non-cash charge is the unrealized foreign exchange losses and the one-time charge relating to the warranty expense assumed by the Company as a result of ISE's bankruptcy.

Income taxes

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

The income tax recovery for 2010 Q4 was $2.2 million, which consists of $2.2 million of current income tax expense and $4.4 million of future income tax recovered.

Fiscal 2010 resulted in a $10.1 million income tax recovery in comparison to an income tax expense of $16.3 million in Fiscal 2009. This decrease in income tax when comparing the two periods, consisted of a $5.5 million decrease in current income taxes and a $21.0 million decrease in future income taxes. The reasons for the relatively large decrease in future taxes are primarily a result of recognizing previously unrecognized future tax assets and the revision of estimated valuation allowance.

The Company has made application for Qualified Alternative Fuel Motor Vehicle Credits ("QAFMV"), however it has not met the accounting recognition criteria and as such, the Company has not recorded these in the Fiscal 2010 consolidated financial statements. The QAFMV is referred to in Internal Revenue Code Section 30B, whereby tax credits are available for certain types of vehicles placed in service during 2006 through 2010. It appears that New Flyer is potentially eligible for the tax credit on sales of CNG and LNG buses. The QAFMV tax credit is up to a maximum of $32.0 thousand per qualified bus.

Net (loss) earnings

The Company reported a net loss of $15.9 million in 2010 Q4 compared to net loss of $11.3 million in 2009 Q4. The increase in net loss in 2010 Q4 is primarily attributable to the increase in loss before income taxes partially offset by a decrease in income taxes as noted above. Whereas, the net earnings of $3.9 million in Fiscal 2010 increased compared to the $30.4 million net loss in Fiscal 2009, primarily as a result of increased earnings before income taxes and a significant reduction in income taxes. The Company's net earnings (losses) can be subject to a high degree of volatility from one fiscal period to the next as a result of non-cash accounting adjustments and income taxes.

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 2010 Q4, the Company increased its cash by $12.3 million primarily as a result of reducing the investment in non-cash working capital. During Fiscal 2010, the Company also reduced its investment in non-cash working capital by $36.7 million, primarily as a result of reduced accounts receivable related to the favourable milestone billing associated with the delivery of 203 Ottawa buses (406 EUs) and reduced inventory levels resulting from continued OpEx efforts in the bus manufacturing operation. The number of units in WIP inventory reduced from a high point of 299 EUs at the end of 2010 Q1 to 209 EUs at January 2, 2011. The reduction of WIP and receipt of Ottawa's milestone payments were the primary contributors to the $42.8 million increase in the Company's cash in Fiscal 2010. The cash balance at January 2, 2010 was $73.5 million, which has significantly improved from $30.7 million of cash at January 3, 2010. The January 2, 2011 liquidity position of $123.5 million is comprised of cash of $73.5 million and a $50.0 million secured revolving credit facility. As at January 2, 2011, 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.

The Company generated a shortfall of Distributable Cash of C$3.9 million during 2010 Q4 compared to an excess of C$3.7 million in Distributable Cash for 2009 Q4 as a result of reduced cash provided by operations in 2010 Q4 compared to 2009 Q4. The Company generated an excess of Distributable Cash of C$15.7 million for Fiscal 2010, a decrease compared to C$21.5 million for Fiscal 2009, primarily due to the strengthening Canadian dollar as compared to the U.S. dollar during Fiscal 2010 and its negative impact on Distributable Cash. The Company has achieved a cumulative excess of Distributable Cash of C$72.4 million since the IPO.

As at January 2, 2011, the Company was in compliance in all material respects with the financial covenants in its credit facility.

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

(Unaudited)	January 2, 2011	October 3, 2010	January 3, 2010
Senior Leverage Ratio (must be less than 2.25)	0.27	0.35	0.67
Total Leverage Ratio (must be less than 4.75)	3.82	3.31	3.51
Fixed Charge Coverage Ratio (must be greater than 1.10)	1.47	1.77	1.77

Interest rate risk

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. The fair value of the interest rate swap of $2.5 million was recorded on the balance sheet as a derivative financial instruments liability at January 2, 2011 ($2.1 million at January 3, 2010) 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 are as follows:

	January 2, 2011	January 3, 2010
Current, including holdbacks	$ 51,317	$ 78,383
Past due amounts but not impaired		
1 – 60 days	4,494	21,800
Greater than 60 days	4,919	3,429
Less: Allowance for doubtful accounts	(21)	(92)
Total accounts receivables, net	$ 60,709	$ 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

The following are the contractual maturities of the undiscounted cash flows of New Flyer's certain non-current financial liabilities and leases as at January 2, 2011:

(US dollars in thousands)	Total	2011	2012	2013	2014	2015	Post 2015
Senior term loan	$ 96,650	$ 5,000	$ 91,650	$ —	$ —	$ —	$ —
Subordinated Notes included in IDS issue	640,948	38,512	38,512	38,512	38,512	38,512	448,388
Separate Subordinated Notes	101,223	6,082	6,082	6,082	6,082	6,082	70,813
Capital leases	6,840	2,918	2,265	1,158	486	13	—
Operating leases	28,531	3,281	2,392	1,974	1,813	1,784	17,287
	$ 874,192	$ 55,793	$ 140,901	$ 47,726	$ 46,893	$ 46,391	$ 536,488

As at January 2, 2011, outstanding surety bonds guaranteed by the Company amounted to $28.6 million, increased compared to $20.2 million at January 3, 2010. 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 2, 2011, letters of credit amounting to $15.5 million remained outstanding under the letter of credit facility as security for the following contractual obligations of the Company:

(Unaudited, US dollars in thousands)	
Collateral to secure operating facility leases	$ 272
Collateral to secure surety facilities	3,599
Customer performance guarantees	10,455
Collateral in support of self-insured workers' compensation obligations	1,130

Related Party Transactions

During Fiscal 2010, as a result of working capital fluctuations in the first half of 2010, dividend payments by NFL Holdings to NFI were restricted under the provisions of the note indenture governing the Subordinated Notes. Therefore, during this period, certain inter-company loans were made to support dividend payments by NFI on its common shares. The boards of directors of NFI and NFI ULC approved a loan arrangement for the months of July, August and September, 2010, in the aggregate of 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. The outstanding loan plus interest was repaid in October 2010.

__Long Term Incentive Plan ("LTIP") and Performance Unit Plans__

The PUP expense totaled $2.4 million and $3.0 million for 2010 Q4 and Fiscal 2010, respectively, as compared to $1.2 million and $5.6 million recorded in 2009 Q4 and Fiscal 2009, respectively under both the LTIP and the PUP.

A Performance Unit Plan ("the "Former PUP") was implemented for eligible officers and management employees in 2008 and fully replaced the LTIP as at January 4, 2010. A new Performance Unit Plan (the "New PUP") was implemented effective January 1, 2011, which replaces the Former PUP for future periods. The purpose of the Former PUP and New 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 under the Former PUP and the New PUP are made in the form of phantom performance units, 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 Former PUP and New PUP that is due within the next twelve months is recorded as a current liability.

__Cash Flow__

The cash flows of the Company are summarized as follows:

(Unaudited, US dollars in thousands)	2010 Q4	2009 Q4	Fiscal 2010	Fiscal 2009
Cash from operating activities before changes in non-cash working capital items	$ 398	$ 8,405	$ 33,997	$ 37,118
Changes in non-cash working capital items	17,291	19,741	36,713	(11,299)
Cash flow from operating activities	17,689	28,146	70,710	25,819
Cash flow from financing activities	(5,463)	(4,716)	(21,630)	(20,811)
Cash flow from investing activities	(1,335)	(1,858)	(8,316)	(5,181)

__Cash flows from operating activities__

The 2010 Q4 net operating cash inflow of $17.7 million is the result of a decrease of $17.3 million in non-cash working capital and a $0.4 million of net cash earnings, compared to 2009 Q4 net operating cash inflow of $28.1 million which resulted from $8.4 million of net cash earnings and a decrease of $19.7 million in non-cash working capital. The 2010 Q4 non-cash working capital changes that are primarily responsible for the significant inflow during the period are due to a decrease in accounts receivables primarily due to the receipt of Ottawa's milestone payments and a decrease in inventory.

The Fiscal 2010 net cash operating inflow of $70.7 million is the result of a decrease of $36.7 million in non-cash working capital and $34.0 million of net cash earnings compared to Fiscal 2009 net cash operating inflow of $25.8 million, resulting from $37.1 million of net cash earnings offset by a decrease of $11.3 million in non-cash working capital. The Fiscal 2010 non-cash working capital changes that are primarily responsible for the significant inflow are due to reduced accounts receivable related to the favourable milestone billing associated with the delivery of 203 Ottawa buses (406 EUs) and reduced inventory levels resulting from continued OpEx efforts in the bus manufacturing operation in Fiscal 2010 offset by a decrease in accounts payables.

__Cash flow from financing activities__

The Company's financing activities resulted in a net cash outflow of $5.5 million and $4.7 million for 2010 Q4 and 2009 Q4, respectively. The increased outflow primarily relates to $0.4 million of increased dividends paid.

The Company's financing activities for Fiscal 2010 resulted in a net cash outflow of $21.6 million, compared to Fiscal 2009 net cash outflow of $20.8 million. The primary factors of this increase are a result of increased dividend payments of $18.5 million compared to $16.4 million in Fiscal 2009 as a result of the new shares issued in connection with the Retained Interest Conversion. Whereas, Fiscal 2009 net cash outflow includes $2.5 million of transaction costs as part of the April 2009 refinancing of the senior credit facility compared to $1.1 million of transaction costs as part of the Retained Interest Conversion in Fiscal 2010.

Cash flow from investing activities

2010 Q4 investing activities resulted in a net cash outflow of $1.3 million compared to $1.9 million in 2009 Q4, and a net cash outflow of $8.3 million in Fiscal 2010 compared to $5.2 million in Fiscal 2009. The cash flows related to capital expenditures in 2009 Q4 were offset by proceeds of $0.3 million received from the sale of a demonstrator bus. The Company's investing activities for Fiscal 2010 also included the acquisition of the assets and business of TCB Industries, LLC for $1.1 million.

The composition of the capital expenditures was as follows:

(Unaudited, US dollars in thousands)	**2010 Q4**	**2009 Q4**	**Fiscal 2010**	**Fiscal 2009**
Capital expenditures	$ 1,596	$ 4,119	$ 7,752	$ 9,731
Less capital expenditures funded by capital leases	(254)	(2,261)	(498)	(4,208)
Cash capital expenditure	1,342	1,858	7,254	5,523
Comprised of:				
Maintenance capital expenditures	774	1,115	3,352	2,548
Growth capital expenditures	568	743	3,902	2,975
	1,342	1,858	7,254	5,523

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 2, 2011, 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 – The exemption will be applied so as to not restate to the previously recorded business combinations. It is important to note that the 2007 Offering (the date of the reconsideration event where NFI began to consolidate NFL Holdings as the result of application of VIE rules under Canadian GAAP) did not constitute a business combination under IFRS as there is no "variable interests" model to determine which entities are consolidated. Consolidation is based on "control" which is the ability to direct or dominate an entity's decision making, regardless of whether this power is actually exercised. Therefore, it would not be appropriate to apply the IFRS 1 exemption pertaining to business combinations to the 2007 Offering given that a business combination did not occur when applying the rules and definitions in IFRS 3R. However, the 2007 Offering is a qualifying event that allows for the application of the IFRS 1(2008).D8 exemption pertaining to an event-driven fair market valuation (see ii below).

ii. Fair value as deemed cost – The Company will apply the IFRS 1(2008).D8 exemption pertaining to the event-driven fair market valuation that occurred on July 12, 2007 which allows the fair values determined at a qualifying event to be recorded as deemed cost under IFRS. All of the assets and liabilities affected by the 2007 Offering qualify for the deemed cost exemption with the exception of goodwill. Therefore, there will be no adjustments related to the IFRS 1 deemed cost election at transition date other than re-instating goodwill to its original amount prior to the reconsideration event. Goodwill of $201.1 million was originally recorded on August 19, 2005. The effect on the opening balance sheet at transition to IFRS will increase goodwill by $33.6 million and increase retained earnings also by $33.6 million.

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

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 $1.3 million which increases the accrued benefit liability by $2.0 million and increases future/deferred income tax assets by $0.7 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 $2.1 million, which increases the accrued benefit liability by $3.3 million and increases future/deferred income tax assets by $1.2 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 other comprehensive income. The Company has decided to adopt option (c).

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

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.

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 Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”). The Company’s ICFR are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Management, under the supervision of the CEO and CFO, evaluated the design of the Company’s ICFR as of January 2, 2011 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.

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 CEO and CFO have concluded that disclosure controls and procedures as at January 2, 2011 were not effective as it relates to accounting for income taxes.

Consolidated Financial Statements of

NEW FLYER INDUSTRIES INC.

January 2, 2011

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
New Flyer Industries Inc.

We have audited the accompanying consolidated financial statements of New Flyer Industries Inc., which comprise the consolidated balance sheets as at January 2, 2011 and January 3, 2010, and the consolidated statements of operations, comprehensive income (loss) and deficit and cash flows for the 52-week and 53-week periods then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of New Flyer Industries Inc. as at January 2, 2011 and January 3, 2010, and the results of its operations and its cash flows for the 52-week and 53-week periods then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
March 21, 2011
Winnipeg, Manitoba

NEW FLYER INDUSTRIES INC.

CONSOLIDATED BALANCE SHEETS

As at January 2, 2011 and January 3, 2010
(in thousands of U.S. dollars)

	January 2, 2011	January 3, 2010
Assets		
Current		
Cash	$ 73,463	$ 30,696
Accounts receivable (note 3)	60,709	103,520
Inventories (note 4)	82,882	139,357
Prepaid expenses and deposits	5,196	5,679
Derivative financial instruments (note 13c)	8	420
Due from related party (note 17)	—	510
Future income tax assets (note 12)	22,329	8,767
	244,587	288,949
Property, plant and equipment (note 5)	37,086	37,215
Accrued benefit asset (note 15)	961	—
Intangible assets (note 6)	357,543	373,408
Future income tax assets (note 12)	2,639	2,796
Goodwill	168,606	167,521
	$ 811,422	$ 869,889
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 95,008	$ 166,044
Deferred revenue	27,568	25,129
Provision for warranty costs	42,641	31,409
Current portion of performance unit plan liability (note 16)	4,142	—
Current portion of obligations under capital lease (note 7)	2,596	2,590
Future income tax liabilities (note 12)	5,314	—
	177,269	225,172
Accrued benefit liability (note 15)	—	1,305
Obligations under capital lease (note 7)	3,684	5,570
Performance unit plan liability (note 16)	3,823	4,547
Future income tax liabilities (note 12)	124,399	133,164
Long-term debt (note 8)	404,929	376,333
Derivative financial instruments (note 13c)	2,510	2,091
Other liabilities, Class B and Class C common shares (note 9)	—	21,018
	716,614	769,200
Commitments and contingencies (note 18)		
Shareholders' equity		
Share capital (note 10)	226,338	217,469
Deficit	(131,530)	(116,780)
	94,808	100,689
	$ 811,422	$ 869,889

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 INCOME (LOSS) AND DEFICIT

52 weeks ended January 2, 2011 and 53 weeks ended January 3, 2010
(in thousands of U.S. dollars except per share figures)

	Fiscal 2010	Fiscal 2009
Revenue	$ 983,758	$ 1,099,866
Cost of sales (excluding amortization)	841,682	953,094
Sales, general administration costs and other operating expenses	46,986	44,115
Amortization	24,058	22,619
Foreign exchange (gain) loss	(2,028)	2,551
Earnings from operations	73,060	77,487
Unrealized foreign exchange loss on non-current monetary items and forward foreign exchange contracts	16,893	36,202
Business acquisition related costs (note 1b)	132	—
Warranty expense assumed from ISE bankruptcy (note 21)	8,684	—
Gain on disposition of property, plant and equipment	(23)	(231)
Fair value adjustment to embedded derivative	—	787
Fair value adjustment to other liabilities, Class B and C common shares (note 9)	22	4,967
Earnings before interest and income taxes	47,352	35,762
Interest expense		
Interest on long-term debt	48,449	44,599
Accretion in carrying value of long-term debt	890	893
Other interest and bank charges	2,154	2,387
Fair market value adjustment on interest rate swap	419	273
	51,912	48,152
Distributions on Class B and Class C common shares (note 9)	1,626	1,646
	53,538	49,798
Loss before income tax expense	(6,186)	(14,036)
Income tax (recovered) expense (note 12)		
Current income taxes	6,400	11,852
Future income taxes (recovered)	(16,460)	4,492
	(10,060)	16,344
Net earnings (loss) and comprehensive income (loss) for the period	3,874	(30,380)
Deficit — beginning of period	(116,780)	(69,824)
Net earnings (loss) for the period	3,874	(30,380)
Dividends declared	(18,624)	(16,576)
Deficit — end of period	$ (131,530)	$ (116,780)
Net earnings (loss) per share (basic and diluted) (note 10)	$ 0.08	$ (0.64)

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

NEW FLYER INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
52 weeks ended January 2, 2011 and 53 weeks ended January 3, 2010
(in thousands of U.S. dollars)

	Fiscal 2010	Fiscal 2009
Cash provided by (used in)		
Operating activities		
Net earnings (loss) for the period	$ 3,874	$ (30,380)
Amortization of plant and equipment	8,193	6,753
Amortization of intangible assets	15,865	15,866
Gain on disposition of property, plant and equipment	(23)	(231)
Future income taxes (recovered)	(16,460)	4,492
Unrealized loss on cross-currency interest rate swap	419	273
Unrealized foreign exchange loss on non-current monetary items and forward foreign exchange contracts	16,893	36,202
Accretion in carrying value of long-term debt	890	893
Foreign exchange gain on cash held in foreign currency	(2,003)	(148)
Non cash impact of embedded derivative	—	(36)
Fair value adjustment to embedded derivative	—	787
Fair value adjustment to other liabilities, Class B and C common shares	22	4,967
Warranty expense assumed from ISE bankruptcy (note 21)	8,684	—
Defined benefit expense (note 15)	1,867	1,278
Defined benefit funding (note 15)	(4,224)	(3,598)
Cash from operating activities before changes in non-cash working capital items	33,997	37,118
Changes in non-cash working capital items (note 11)	36,713	(11,299)
	70,710	25,819
Financing activities		
Repayment of obligations under capital lease	(2,478)	(1,679)
Costs associated with share issuance	(479)	—
Proceeds from issue of long-term debt	11,565	—
Costs associated with refinancing or debt issuance	(588)	(2,458)
Repayment of other liabilities, Class B and C common shares	(11,565)	—
Due to related party – New Flyer LLC (previously held by management)	383	(292)
Dividends paid	(18,468)	(16,382)
	(21,630)	(20,811)
Investing activities		
Proceeds from disposition of property, plant and equipment	23	342
Net cash used in acquisition of TCB Industries, LLC (note 1b)	(1,085)	—
Acquisition of property, plant and equipment	(7,254)	(5,523)
	(8,316)	(5,181)
Effect of foreign exchange rate on cash	2,003	148
Increase (decrease) in cash	42,767	(25)
Cash — beginning of period	30,696	30,721
Cash — end of period	$ 73,463	$ 30,696

Supplemental cash flow information (note 11)

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

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 (the "Statements") are those of NFI together with its subsidiaries, New Flyer Holdings, Inc. ("NFL Holdings"), Transit Holdings, Inc. ("THI"), New Flyer of America Inc. ("NFAI"), New Flyer Industries Canada ULC ("NFI ULC"), 1176846 Alberta ULC, and TCB Enterprises, LLC ("TCB").

a) Retained interest conversion transaction

On June 24, 2010, the Company completed the retained interest conversion transaction, resulting in the issuance by the Company and NFI ULC of 2,152,179 Income Deposit Securities ("IDS"), representing approximately 4% of the outstanding IDSs, in exchange for all of the issued and outstanding 463,875 Class B common shares ("Class B Shares") and 2,053,657 Class C common shares ("Class C Shares") of the Company's subsidiary, NFL Holdings, indirectly held by certain current and former members of management of the Company (the "Retained Interest Conversion").

On completion of the Retained Interest Conversion, the aggregate percentage ownership interest held by the current and former management holders' in NFI's business remained substantially unchanged. The IDSs were issued at a price of C$10.00 per IDS for gross proceeds of C$21,522. Each IDS consists of one common share of the Company and C$5.53 principal amount of subordinated notes of NFI ULC ("Subordinated Notes"). The Company issued 2,152,179 new common shares and NFI ULC issued an aggregate principal amount of C$11,902 of new Subordinated Notes to constitute such IDSs. On completion of the transaction, there were 49,475,279 IDSs issued and outstanding.

This was the final exercise of liquidity rights pursuant to the securityholders' agreement governing NFL Holdings. As a result, NFI holds 100% of the economic and voting interest in NFL Holdings, and therefore it is no longer considered an investment in a variable interest entity ("VIE") under AcG-15. This change in classification does not impact these consolidated financial statements as the Company continues to fully consolidate NFL Holdings following CICA section 1601.

b) Acquisition of certain assets and liabilities of TCB Industries, LLC

On April 30, 2010, THI acquired certain assets and liabilities of TCB Industries, LLC of Elkhart, Indiana. The acquisition price was $1,150 of cash with future contingent consideration not to exceed $350 based upon the achievement of certain cumulative earnings levels up to December 2012. The purchased business is being operated by THI's new wholly-owned subsidiary, TCB. Goodwill was recorded in the amount of $1,085 which represents the excess of the purchase price over the fair value assigned to identifiable assets and liabilities acquired. The purchase price recognized included $350 of contingent consideration.

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 2010 and 2009 fiscal period is based on four quarters as follows:

	Period from January 4, 2010 to January 2, 2011 (Fiscal 2010)		Period from December 29, 2008 to January 3, 2010 (Fiscal 2009)	
	Period End Date	# of Weeks	Period End Date	# of Weeks
Quarter 1	April 4, 2010	13	April 5, 2009	14
Quarter 2	July 4, 2010	13	July 5, 2009	13
Quarter 3	October 3, 2010	13	October 4, 2009	13
Quarter 4	January 2, 2011	13	January 3, 2010	13
Fiscal year	January 2, 2011	52	January 3, 2010	53

(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, property, plant and equipment, intangible assets, goodwill, provision for warranty costs, accrued benefit asset, contingent consideration, 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.

(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

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. 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.

(h) Investment in New Flyer Holdings, Inc.

On July 12, 2007, the Company's investment in NFL Holdings had been determined to be an investment in a VIE as the Company was the primary beneficiary of NFL Holdings, in accordance with AcG-15, and therefore began consolidating the assets, liabilities and the results of operations of NFL Holdings and its subsidiaries. On June 24, 2010, the Company increased its holdings to 100% of the economic and voting interest in NFL Holdings and as such, continued to fully consolidated NFL Holdings financial statements however now following CICA section 1601.

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 fiscal 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 the decline in fair value is other than temporary. 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 Shares and Class C Shares 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. There were no embedded derivatives that existed at January 2, 2011.

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, these sections do 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 loss carry forwards and 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 (the "Former PUP") was implemented for eligible officers and management employees. A new Performance Unit Plan (the "New PUP") was implemented effective January 1, 2011 which replaces the Former PUP for future periods. Awards under the Former PUP and the New PUP 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 Former PUP and New PUP are recorded as a current and non-current liability.

(t) Investment Tax Credits

The Company is entitled to investment tax credits based on the number of qualified alternative fuel motor vehicles delivered, and also on a percentage of eligible current and capital research and development expenditures incurred in each taxation year. When realization of the investment tax credits are reasonably certain, the credits are recognized either as an item on the statement of operations, or as a reduction in property, plant and equipment, depending on where the original costs which gave rise to the credits were recorded.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) New Accounting Policies Adopted

During the 52-week period ended January 2, 2011, the Company adopted the following new handbook sections issued by the CICA:

Business Combinations*, Handbook Section 1582*

CICA Handbook 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.

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

CICA Handbook 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.

(v) 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.

Convergence with International Financial Reporting Standards ("IFRS")

In February 2008, Canada's Accounting Standards Board confirmed that Canadian GAAP, as used by public companies, will be converged with IFRS effective January 1, 2011. The transition from Canadian GAAP to IFRS will be applicable to the Company for the first quarter of 2011 when the Company will prepare both the current and comparative financial statements using IFRS.

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.

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

3. ACCOUNTS RECEIVABLE

	January 2, 2011	January 3, 2010
Trade	$ 52,487	$ 96,375
Income taxes	1,505	—
Other	6,717	7,145
	$ 60,709	$ 103,520

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

4. INVENTORIES

	January 2, 2011	January 3, 2010
Raw materials	$ 38,600	$ 57,893
Work in process	42,580	72,729
Finished goods	1,702	8,735
	$ 82,882	$ 139,357

During the 52-week period ended January 2, 2011, the cost of sales expense includes $1,128 (2009: $4,875) 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.

5. PROPERTY, PLANT AND EQUIPMENT

	January 2, 2011			January 3, 2010		
	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	12,704	1,477	11,227	11,786	1,026	10,760
Machinery and equipment	25,212	12,349	12,863	21,802	9,456	12,346
Demonstrator buses	2,583	1,479	1,104	1,364	629	735
Computer hardware and software	9,103	5,398	3,705	7,839	4,362	3,477
Office equipment	953	300	653	507	158	349
Under capital lease:						
Computer hardware	4,211	2,650	1,561	3,861	1,554	2,307
Machinery and equipment	7,766	3,859	3,907	7,620	2,445	5,175
	$ 64,598	$ 27,512	$ 37,086	$ 56,845	$ 19,630	$ 37,215

The plant and equipment amortization expense recorded as inventory at January 2, 2011 was $287 (2009: $597).

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

6. INTANGIBLE ASSETS

	January 2, 2011			January 3, 2010		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Finite-life intangible assets:						
Patents	$ 99,700	$ 28,832	$ 70,868	$ 99,700	$ 20,524	$ 79,176
Customer relationships	158,700	26,225	132,475	158,700	18,668	140,032
Indefinite-life intangible assets:						
Trade names	154,200	—	154,200	154,200	—	154,200
	$ 412,600	$ 55,057	$ 357,543	$ 412,600	$ 39,192	$ 373,408

The intangible asset amortization expense recorded during the 52-week period ended January 2, 2011 was $15,865 (2009: $15,866).

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 6.34% based on individual lease rates ranging between 1.33% and 13.41%, expiring between 2011 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 2, 2011:

2011	$ 2,918
2012	2,265
2013	1,158
2014	486
2015	13
	6,840
Less: Amounts representing interest	560
	6,280
Less: Current portion	2,596
	$ 3,684

8. LONG-TERM DEBT

	Final Maturity	Face Value	Unamortized Transaction Costs	Net Book Value January 2, 2011	Net Book Value January 3, 2010
Subordinated Notes included in the IDS issue (a)	2020	$ 275,084	$ 2,285	$ 272,799	$ 247,331
Separate Subordinated Notes (b)	2020	43,444	169	43,275	40,946
Term Credit Facility (c)	2012	90,000	1,145	88,855	88,056
		$ 408,528	$ 3,599	$ 404,929	$ 376,333

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.

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

8. LONG-TERM DEBT (Continued)

(a) C$273,599 (2009: C$261,697) is the aggregate principal amount of 14%, unsecured Subordinated Notes denominated in Canadian dollars that mature August 2020. The total includes C$11,902 principal amount of Subordinated Notes issued on June 24, 2010 as part of the Retained Interest Conversion.

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

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

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

(b) NFI ULC issued C$43,210 (2009: 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") that matures in April, 2012. The Credit Facility includes a $90,000 secured term loan facility (the "Term Credit Facility"), of which $90,000 was drawn at January 2, 2011, a $50,000 secured revolving credit facility (with no drawings at January 2, 2011 and January 3, 2010) and a $40,000 letter of credit facility, which was drawn at $15,456 at January 2, 2011 (2009: $16,988).

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 (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 SHARES AND CLASS C SHARES OF NFL HOLDINGS

As at June 24, 2010, as a result of the Retained Interest Conversion, NFI held all of the issued and outstanding Class B Shares and the Class C Shares that were previously held by certain current and former members of management through New Flyer LLC. Subsequent to the Retained Interest Conversion, New Flyer LLC was dissolved and it no longer exists.

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 2, 2011	January 3, 2010
—	Class B Shares (464 – January 3, 2010)	$ —	$ 3,872
—	Class C Shares (2,054 – January 3, 2010)	—	17,146
		$ —	$ 21,018

A summary of changes to the carrying value of the liability related to these shares is as follows:

	Class B Shares	Class C Shares	Total
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
Redemption value adjustment	4	18	22
Cancelled on June 24, 2010	(2,130)	(9,435)	(11,565)
Consolidation elimination – NFI owns 100% of Class B Shares and Class C Shares	(1,746)	(7,729)	(9,475)
Redemption value at January 2, 2011	$ —	$ —	$ —

Due to the liquidity rights provisions of the Class B Shares and Class C Shares, these shares had been recorded as liabilities pursuant to GAAP. The redemption value of the Class B Shares and Class C Shares increased as the market value of the IDSs increased, and decreased as the market value of the IDSs decreased.

As a result of the Retained Interest Conversion $21,040 of other liabilities, Class B Shares and Class C Shares were exchanged for 2,152,179 IDSs, comprised of $9,348 of Class A common Shares, $11,565 of Subordinated Notes included in the IDS issue and a $127 related party loan. The liquidity rights of the former holders of Class B Shares and Class C Shares have been fully exercised and as such the remaining shares are no longer recorded as liabilities pursuant to GAAP as they were eliminated upon consolidation of the financial statements of NFL Holdings, its wholly-owned subsidiary.

During the 52-week period ended January 2, 2011, NFL Holdings declared dividends of $300 and $1,326 to the holders of Class B Shares and Class C Shares, respectively.

10. SHARE CAPITAL

Authorized			
Unlimited	Common Shares		
Issued		**January 2, 2011**	**January 3, 2010**
49,475,279	Common Shares (2009 – 47,323,100)	$ 226,338	$ 217,469

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

Common Shares	Number (000s)	$
Balance – December 28, 2008 and January 3, 2010	47,323	$ 217,469
Common shares issued in exchange for Class B Shares and Class C Shares on June 24, 2010	2,152	9,348
Less: share issuance costs	—	(479)
Balance – January 2, 2011	49,475	$ 226,338

The basic and diluted earnings per share has been calculated using the weighted average number of shares outstanding for the 52-week period ended January 2, 2011 of 48,464,228 and 47,323,100 for the 53-week period ended January 3, 2010.

The Company declared dividends during the 52-week period ended January 2, 2011 of $18,624 (2009 - $16,576) 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.

11. CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	**Fiscal 2010**	**Fiscal 2009**
Accounts receivable	$ 42,811	$ (4,210)
Inventories	56,475	6,219
Prepaid expenses and deposits	483	3,157
Accounts payable and accrued liabilities	(68,043)	2,305
Deferred revenue	2,439	(23,165)
Provision for warranty costs (excluding ISE bankruptcy impact – note 21)	2,548	4,395
	$ 36,713	$ (11,299)

Supplemental cash flow information

	Fiscal 2010	**Fiscal 2009**
Cash payments of interest	$ 50,482	$ 46,981
Cash payments (refund) of income taxes	11,156	(3,349)

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

12. INCOME TAXES

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

	Fiscal 2010	Fiscal 2009
Loss before income tax	$ (6,186)	$ (14,036)
Combined statutory rate	31.0%	33.0%
	(1,917)	(4,632)
Reversal of estimated valuation allowance	(9,080)	(2,704)
Withholding and other taxes	862	1,382
Non-deductible expenses	214	128
Revision of tax estimates	130	(1,342)
Impact of subsidiaries' foreign branch operations	1,377	3,477
Foreign exchange impact of subsidiaries' foreign branch	5,793	17,525
Recognition of previously unrecognized assets	(8,946)	—
Impact of rate change on opening future income tax balances	2,980	523
Reversal of current income tax reserves	(2,633)	401
Distributions on Class B Shares and Class C Shares treated as interest expense	504	543
Impact of other liabilities, Class B Shares and Class C Shares fair value adjustment	7	1,639
Other	649	(596)
Income tax expense (recovered)	$ (10,060)	$ 16,344
Comprised of:		
Current income taxes	$ 6,400	$ 11,852
Future income taxes (recovered)	(16,460)	4,492
Income tax expense (recovered)	$ (10,060)	$ 16,344

The Company has a loss carry-forward of $10,986 which may be applied against future taxable income. The right to claim these losses expires as follows:

2011 to 2019 (includes $495 of U.S. federal tax losses that are restricted in application to $55 per year)	$ 999
2026	1,592
2027	1,739
2028	2,156
2029	2,386
2030	2,114
	$ 10,986

In addition to the above, the Company has a capital loss carry-forward of $1,179 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 $3,102.

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

12. INCOME TAXES (Continued)

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

	January 2, 2011	January 3, 2010
Future income tax assets		
Accounts payable and accrued liabilities	$ 6,697	$ 3,005
Inventory and warranty reserves	18,983	13,528
Capital and non-capital losses carried forward	2,923	2,838
Other assets	—	330
Accrued benefit liability	—	476
Property, plant and equipment	4,766	330
Inter-company profit elimination	—	166
Deferred financing costs	7,865	4,956
Tax credit pool	88	7,761
Alternative fuel tax credits	1,415	—
Valuation allowance	(3,102)	(9,768)
Future income tax assets	$ 39,635	$ 23,622
Future income tax liabilities		
Property, plant and equipment	$ (1,276)	$ (1,987)
Intangible assets	(134,436)	(136,294)
Inter-company profit elimination	(149)	—
Accrued benefit asset	(362)	—
Unamortized transaction costs	(1,446)	(1,486)
Unrealized foreign exchange gain/losses	(6,480)	(5,162)
Other assets	(231)	(294)
Future income tax liabilities	$ (144,380)	$ (145,223)
Net future income tax liability	$ (104,745)	$ (121,601)
Recorded as		
Current future income tax assets	$ 22,329	$ 8,767
Non-current future income tax assets	2,639	2,796
Current future income tax liabilities	(5,314)	—
Non-current future income tax liabilities	(124,399)	(133,164)
	$ (104,745)	$ (121,601)

(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 Shares and Class C 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 2, 2011:

	January 2, 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Cash	$ 73,463	$ —	$ —	$ 73,463
Derivative financial instrument asset				
Foreign exchange forward contract	—	8	—	8
	$ 73,463	$ 8	$ —	$ 73,471
Liabilities				
Derivative financial instrument liabilities				
Interest rate swap	—	2,510	—	2,510
	$ —	$ 2,510	$ —	$ 2,510

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

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

	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

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.

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 2, 2011		January 3, 2010	
	Net Book Value	**Fair Value**	**Net Book Value**	**Fair Value**
Subordinated Notes included in the IDS issue	$ 272,799	$ 279,111	$ 247,331	$ 248,486
Separate Subordinated Notes	$ 43,275	$ 44,080	$ 40,946	$ 41,029

(c) Risk Management

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

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Market risk (interest rate risk and currency risk)

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

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

Interest rate risk

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

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 at 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 2, 2011 is $2,510 (January 3, 2010: $2,091) 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. As an illustration, 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 52-week period ended January 2, 2011 would have been higher by $637 (2009 - $1,210), 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 52-week period ended January 2, 2011 would have been lower by $626 (2009 - $1,176), 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 52-week period ended January 2, 2011, the Company generated a net inflow of Canadian dollars, as such; earnings from operations are positively affected by a stronger 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 negatively affected by a stronger Canadian dollar compared to the United States dollar.

During the 52-week period ended January 2, 2011, the Company recorded realized foreign exchange gains of $2,028. This was comprised of $1,534 gain on settlement of foreign exchange contracts (2009: $1,322 losses) and a $494 foreign currency gain on translation of Canadian dollar denominated operations and distributions.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

At January 2, 2011, the Company had a foreign exchange forward contract that would expire later in January 2011, the related asset of $8 (2009 - $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.

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. As an illustration, at January 2, 2011, 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 52-week periods ended January 2, 2011 would have been higher by $16,223 (2009 - $17,160), 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 $19,828 (2009 - $20,973) for the 52-week periods ended January 2, 2011. The impact of these potential fluctuations produces unrealized foreign exchange gains and losses almost entirely related to the Canadian denominated long-term debt that matures in 2020.

(d) 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 and derivative financial instruments. 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 the undiscounted cash flows of certain non-current financial liabilities and leases as at January 2, 2011:

US dollars in thousands	Total	2011	2012	2013	2014	2015	Post 2015
Term Credit Facility	$ 96,650	$ 5,000	$ 91,650	$ —	$ —	$ —	$ —
Subordinated Notes included in IDS issue	640,948	38,512	38,512	38,512	38,512	38,512	448,388
Separate Subordinated Notes	101,223	6,082	6,082	6,082	6,082	6,082	70,813
Capital leases	6,840	2,918	2,265	1,158	486	13	—
Operating leases	28,531	3,281	2,392	1,974	1,813	1,784	17,287
	$ 874,192	$ 55,793	$ 140,901	$ 47,726	$ 46,893	$ 46,391	$ 536,488

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 2, 2011, the Company had a cash balance of $73,463 and had a $50,000 secured revolving credit facility. As at January 2, 2011, 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)

(e) 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 52-week period ended January 2, 2011, the Company recorded a bad debt recovery of $88 as compared to a bad debt expense of $9 in Fiscal 2009.

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 2, 2011	January 3, 2010
Current, including holdbacks	$ 51,317	$ 78,383
Past due amounts but not impaired		
1 – 60 days	4,494	21,800
Greater than 60 days	4,919	3,429
Less: Allowance for doubtful accounts	(21)	(92)
Total accounts receivables, net	$ 60,709	$ 103,520

As at January 2, 2011, there was no amount that would otherwise be past due or impaired whose terms have been renegotiated.

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

(f) 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 and shareholders' equity. The Company manages capital to ensure an appropriate balance between debt and equity.

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

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

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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 2010 and Fiscal 2009.

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

As at January 2, 2011, 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 2, 2011	January 3, 2010
Senior Leverage Ratio (must be less than 2.25)	0.27	0.67
Total Leverage Ratio (must be less than 4.75)	3.82	3.51
Fixed Charge Coverage Ratio (must be greater than 1.10)	1.47	1.77

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. The newly acquired assets and operations of TCB are allocated fully to the Bus Operations segment.

There is no inter-segment revenue. Unallocated items in the consolidated earnings before income taxes primarily include foreign exchange gains or losses, gains on disposition of property, plant and equipment, amortization of property, plant and equipment, amortization of intangible assets, interest expense, accretion in carrying value of long-term debt, fair value adjustments to embedded derivative, 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, derivative financial assets, accrued benefit asset, 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.

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

14. SEGMENT INFORMATION (Continued)

Segment information about profits and assets is as follows:

	Fiscal 2010			
	Bus Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 878,082	$ 105,676	$ —	$ 983,758
Operating costs and expenses	815,866	81,618	—	897,484
Earnings (loss) before income taxes	62,216	24,058	(92,460)	(6,186)
Total assets	317,715	37,725	455,982	811,422
Capital expenditures	6,758	496	—	7,254
Goodwill	163,522	5,084	—	168,606

	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 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

The allocation of revenue to geographic areas is as follows:

	Fiscal 2010	Fiscal 2009
United States	$ 676,230	$ 827,421
Canada	307,528	272,445
Total	$ 983,758	$1,099,866

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

	January 2, 2011	January 3, 2010
United States	$ 9,178	$ 8,513
Canada	27,908	28,702
Total	$ 37,086	$ 37,215

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 2010	Fiscal 2009
Customer A	$ —	$ 160,464
Customer B	100,345	120,460
Customer C	136,553	—

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 pension plan

The Company's subsidiary, NFI ULC, has a defined benefit pension plan which covers unionized employees. An actuarial valuation was last performed as at December 31, 2009. The next compulsory actuarial valuation as of December 31, 2010 will be completed in 2011.

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

	January 2, 2011	January 3, 2010
Change in plan assets		
Plan assets at fair value — beginning of period	$ 22,228	$ 14,897
Actual return on plan assets	2,499	1,823
Employer's contributions	4,224	3,598
Benefits paid	(746)	(741)
Foreign exchange	1,474	2,651
Plan assets at fair value — end of period	29,679	22,228
Change in accrued benefit obligation		
Accrued benefit obligation — beginning of period	28,858	17,146
Current service cost	1,422	1,026
Interest cost	1,935	1,595
Benefits paid	(746)	(741)
Foreign exchange	1,917	3,314
Plan amendments	—	3,203
Actuarial loss	5,215	3,315
Accrued benefit obligation — end of period	38,601	28,858
Funded status — plan deficit	(8,922)	(6,630)
Unamortized past service costs	3,109	3,283
Unamortized net actuarial loss	6,774	2,042
Accrued benefit asset (liability)	$ 961	$ (1,305)

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

	Fiscal 2010	Fiscal 2009
Accrued benefit obligation		
Discount rate	5.75%	6.50%
Pension plan expense		
Discount rate	6.50%	8.75%
Expected long-term rate of return on plan assets	7.00%	7.00%

The Company's defined benefit pension 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.

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

15. EMPLOYEE FUTURE BENEFITS (Continued)

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

	Fiscal 2010	Fiscal 2009
Current service costs	$ 1,422	$ 1,026
Interest cost on accrued benefit obligations	1,935	1,595
Actual return on assets	(2,499)	(1,823)
Plan amendments	—	3,203
Foreign exchange	(52)	(207)
Actuarial loss on accrued benefit obligations	5,215	3,315
Pension cost before adjustments to recognize long-term nature of the plan	6,021	7,109
Difference between expected and actual return on plan assets	789	620
Difference between amortization of past service costs for period and actual plan amendments	272	(3,019)
Difference between actuarial loss recognized and actual actuarial loss on benefit obligation	(5,215)	(3,432)
Pension expense for the period	$ 1,867	$ 1,278

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

	January 2, 2011	January 3, 2010
Asset category		
Canadian equities	20.0%	21.8%
Foreign equities	29.7%	24.3%
Bonds	50.3%	53.9%
	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 2010	Fiscal 2009
Defined contribution pension expense	$ 1,787	$ 1,632

Cash payments contributed by the Company during the 52-week period ended January 2, 2011 for its defined benefit and defined contribution pension plans amounted to $6,011 (2009: $5,230).

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

16. PERFORMANCE UNIT PLAN LIABILITY

The purpose of the Former PUP and the New 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 Former PUP and the New 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 Former PUP and the New PUP, the human resources, compensation and governance committee may grant eligible participants each year PUs which give the holders thereof the right to receive, upon vesting and redemption of a PU, a cash payment equal to the fair market value of an IDS, determined based on the average trading price of the IDS units for the 5 trading days preceding the redemption date. When distributions are paid on an IDS, additional PUs equivalent to the amount of the distributions multiplied by the number of PUs held (and determined based on the average trading price of the IDS units for the 5 trading days preceding payment date) will be credited to the participant's PU account. PUs generally vest at the end of the third fiscal year following the date of grant, subject to and based on the Company achieving certain specified performance targets.

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. At the beginning of year, there were 774,197 PUs outstanding at January 3, 2010. During the 52-week period ended January 2, 2011 an additional 421,087 PUs were granted to the Company’s executives, 12,559 PUs were forfeited and a net of 132,232 PUs were credited to the participants for distributions paid. At January 2, 2011, 302,562 PUs are fully vested. For the 52-week period ended January 2, 2011, a compensation expense of $2,993 (2009 -$2,766) was recorded in the consolidated statements of operations in relation to this PUP. At January 2, 2011 there exists a current liability of $4,142 and a non-current liability of $3,823.

17. RELATED PARTY TRANSACTIONS

The Company has the following related party balances:

	January 2, 2011	January 3, 2010
Due from New Flyer LLC (held by management), interest rate of 15.5%, payable on demand	$ —	$ 510

Loans were made in lieu of dividends to New Flyer LLC on its Class B Shares and Class C Shares. The related party transactions were measured at the exchange amount, which is the amount of consideration established and agreed to by the related party. All related party loans with New Flyer LLC were repaid in full. Subsequent to the Retained Interest Conversion, New Flyer LLC was dissolved and it no longer exists.

(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 $28,531 payable as follows:

2011	$ 3,281
2012	2,392
2013	1,974
2014	1,813
2015	1,784
Thereafter	17,287
	$ 28,531

(b) In the normal course of business, the Company receives notice of potential legal proceedings or is named as a defendant in legal proceedings, including those that may be related to product liability, wrongful dismissal or personal injury. Many claims are covered by the Company's insurance policies and 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 2, 2011 range from January 2011 to March 2013.

At January 2, 2011, outstanding surety bonds guaranteed by the Company totaled $28,582 (2009: $20,163). 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 2, 2011, letters of credit totaling $15,456 (2009: $16,988) remain outstanding under the letter of credit facility as security for the following contractual obligations of the Company:

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

As at January 2, 2011, 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 at January 2, 2011, a liability has been recorded of $144 relating to the statutory notice requirement applicable to a workforce reduction during Fiscal 2009. The liability is recorded on the balance sheet within accounts payables and accrued liabilities. Management estimates that there is a maximum additional exposure of $490 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 it is likely 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.

21. SUBSEQUENT EVENT

On January 12, 2011, ISE Corporation ("ISE"), the Company's supplier of hybrid propulsion systems or integration components, received a United States Bankruptcy Court order approving the sale of substantially all of ISE's assets to Bluways USA, Inc. ("Bluways"), a subsidiary of a Belgian company. The assets acquired by Bluways did not include the New Flyer related contracts and as a result the Company has assumed certain warranty expense obligations for ISE components relating to buses produced by the Company, estimated at $8,684 at January 2, 2011. To ensure that the Company can support its customer's buses in the future, it has acquired a license from Bluways for certain intellectual property pursuant to a license agreement.