

Management's Discussion and Analysis

May 13, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS ENDED APRIL 4, 2010

Information in this Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of NFI (as defined below) is supplemental to, and should be read in conjunction with, NFI's consolidated financial statements (including notes) for the 13-week period ended April 4, 2010 ("2010 Q1"). This MD&A contains forward-looking statements, which are subject to a variety of factors that could cause actual results to differ materially from those contemplated by these statements. See "Forward-looking Statements". Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the factors described in NFI's public filings available on SEDAR at www.sedar.com. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("GAAP") and, except where otherwise indicated, are presented in U.S. dollars, representing the functional currency of NFI. Unless otherwise indicated, the financial information contained in this MD&A has been prepared in accordance with GAAP and references to "\$" or "dollars" mean U.S. dollars.

MEANING OF CERTAIN REFERENCES

New Flyer Industries Inc. ("NFI"), an Ontario corporation, is the issuer of the common shares and New Flyer Industries Canada ULC ("NFI ULC", together with NFI, the "Issuer"), an Alberta unlimited liability corporation, is the issuer of the Subordinated Notes, that, together with the common shares, form the income deposit securities of the Issuer ("IDSs"). As of April 4, 2010, 47,323,100 IDSs were outstanding. Each IDS represents one common share and C\$5.53 principal amount of Subordinated Notes. Unless otherwise stated or the context otherwise requires, references to the "Issuer" refer, collectively, to NFI and NFI ULC. References in this MD&A to "New Flyer" or the "Company" are to New Flyer Holdings, Inc. ("NFL Holdings") and its consolidated subsidiaries immediately prior to, and to 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 has determined that NFI is now deemed to be the primary beneficiary of NFL Holdings in accordance with CICA Accounting Guideline-15, and as such, effective July 12, 2007, NFI began to consolidate assets, liabilities and the results of operations of NFL Holdings and its subsidiaries. For the purposes of this MD&A, the financial information of NFL Holdings is combined with NFI for the periods prior to July 12, 2007. Consolidated financial information for NFI is shown for periods beginning on or after July 12, 2007. Additional information about the Issuer and the Company is available on SEDAR at www.sedar.com.

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

Forward-looking Statements

Certain statements in this MD&A are "forward-looking statements", which reflect the expectations of management regarding the Issuer's and the Company's future growth, results of operations, performance and business prospects and opportunities. The words "believes", "anticipates", "plans", "expects", "intends", "projects", "estimates" and similar expressions are intended to identify forward-looking statements. These forward-looking statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this MD&A. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not or the times at or by which such performance or results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements. Such differences may be caused by factors which include, but are not limited to, competition in the heavy-duty transit bus industry, availability of funding to the Company's customers at current levels or at all, material losses and costs may be incurred as a result of product warranty issues, material losses and costs may be incurred as a result of product liability claims, changes in Canadian or United States tax legislation, the Company's success depends on a limited number of key executives who the Company may not be able to adequately replace in the event that they leave the Company, the absence of fixed term customer contracts and the termination of contracts by customers for convenience, the current "Buy-America" legislation and the

Management's Discussion and Analysis

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, 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 possibility of fluctuations in the market prices of the pension plan investments and discount rates used in the actuarial calculations will impact pension expense and funding requirements, the Company's profitability and performance can be adversely affected by increases in raw material and component costs and the availability of labour could have an impact on production levels. The Issuer cautions that this list of factors is not exhaustive. These factors and other risks and uncertainties are discussed in the Issuer's materials filed with the Canadian securities regulatory authorities and are available on SEDAR at www.sedar.com.

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

DEFINITIONS OF EBITDA, ADJUSTED EBITDA AND DISTRIBUTABLE CASH

References to "EBITDA" are to earnings before interest expense, income taxes, depreciation and amortization; losses or gains on disposal of property, plant and equipment; unrealized foreign exchange losses or gains on non-current monetary items and forward foreign exchange contracts; fair value adjustments to other liabilities - Class B and Class C common shares; fair value adjustment to embedded derivatives; non-cash impact of embedded derivatives and distributions on Class B and Class C common shares. References to "Adjusted EBITDA" are to EBITDA after adjusting for: the effects of certain non-recurring and/or non-operations related items that have impacted the business and are not expected to recur, including fair market value adjustments to inventory, prepaid expenses, deferred revenue and accounts payables and accrued liabilities resulting from purchase accounting for the August 19, 2005 Acquisition (as described in note 1 of the consolidated financial statements of NFL Holdings for the period ended December 31, 2006), the 2007 Offering related costs (as described in note 1(b) of the consolidated financial statements of NFI for Fiscal 2008), the transaction related costs for the April 10, 2008 offering and related transactions (as described in note 1(a) of the consolidated financial statements of NFI for Fiscal 2008) (the "April 2008 Offering") and the transaction related costs for the September 3, 2008 offering and related transactions (the "September 2008 Offering") (described in note 1(a) of the consolidated financial statements of NFI for Fiscal 2008). The September 2008 Offering, the April 2008 Offering and the 2007 Offering are referred to herein as the "Follow-on Offerings".

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

The Issuer's method of calculating EBITDA, Adjusted EBITDA, Distributable Cash and Distributable Cash Per Unit may differ materially from the methods used by other issuers and, accordingly, may not be comparable to similarly titled measures used by other issuers. Distributable Cash is not assured, and the actual amount received by holders of IDSs will depend on, among other things, the Company's financial performance, debt covenants and obligations, working capital requirements, future capital requirements and the deductibility

Management's Discussion and Analysis

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. The Company's facilities are all ISO 9001, ISO 14001 and OHSAS 18001 certified. With a skilled workforce of over 2,000 employees, New Flyer is a technology leader, offering the broadest product line in the industry, including drive systems powered by clean diesel, LNG, CNG and electric trolley as well as energy-efficient gasoline-electric, diesel-electric hybrid vehicles and hydrogen fuel cell technology. All products are supported with an industry-leading, comprehensive parts and support network. The Company's IDSs are traded on the Toronto Stock Exchange under the symbol NFI.UN.

On March 30, 2010, New Flyer delivered the first ever newly designed Xcelsior bus to the customer. Its many product improvements make Xcelsior a "best-in-class" vehicle. Xcelsior is lighter weight than New Flyer's current standard bus designs by approximately 10%. The lighter weight of the vehicle is expected to immediately deliver improved fuel economy to our customers. Upgraded styling, a redesigned bumper and LED headlamps were incorporated to address our customers' expectations for an advanced vehicle design. A single-reduction axle, all wheel disc brakes and improved access to components will address maintenance concerns. Accessibility has been greatly improved with a wider door and entry area, a lower front step and an improved ramp angle. The single-reduction axle, along with the rooftop AC and improved insulation, is expected to reduce noise. Passengers and drivers will enjoy an improved ride quality, better visibility, interior LED lighting and many other interior advancements.

New Flyer has been named as one of Canada's Greenest Employers for 2010 for the third consecutive year by the editors of Canada's Top 100 Employers. New Flyer offers the industry's broadest selection of heavy-duty transit vehicles, substantially all of which incorporate clean technologies. We have taken measures to minimize the impact of our products and production facilities on the environment, such as implementing low-VOC products to reduce emissions and managing the safe disposal of hazardous waste generated in the manufacturing process.

As part of New Flyer's mission "to deliver the best bus value and support for life", New Flyer opened a Service Center in Arnprior, Ontario in early 2010, located in Canada's National Capital area, to provide bus warranty, technical and integrated supply chain services for the 700 New Flyer buses currently in operation by OC Transpo, Ottawa's municipal bus operator.

The total order backlog (including firm orders and options) of approximately \$3.6 billion (representing 8,513 equivalent units) as at April 4, 2010 decreased by 5.3% compared to the total order backlog of approximately \$3.8 billion (representing 8,990 equivalent units) as at January 3, 2010. In addition, as previously announced on January 15, 2010, New Flyer was awarded a contract by a U.S. State agency for certain models of transit buses. The contract will expire on December 31, 2010, and agencies which are members of the cooperative purchasing program may purchase buses under the contract as permitted by the cooperative purchasing program rules and regulations. The potential options of 500 equivalent units ("EUs") arising from this program are not included in New Flyer's option backlog. As the duration of the contract is short, management cannot predict the number of options that will be assigned and bought under the contract, but believes it will be lower than would be typical under New Flyer's other customer contracts.

Management attributes the decrease in total current backlog to the fact that transit agencies in the United States and Canada are facing unprecedented funding challenges due to declining state, provincial and local tax revenues. In addition, several transit agencies have reduced service hours and routes and have laid-off employees, thereby creating further funding pressures. The Company monitors transit industry funding status to assess the impact that these developments may have on the pipeline of procurement activity. Management currently anticipates a moderate softening of procurement and option conversion activity in 2011. However, there are approximately 13,536 EUs in New Flyer's current new potential pipeline or bid universe for heavy-duty transit buses, a moderate increase from January 3, 2010. Management views this as an indication of continued requirement for heavy duty buses reinforcing that the low level of orders in 2010 Q1 may indicate a deferral rather than a reduction in demand.

On April 28, 2010, Ottawa's City Council approved the purchase of 306 new articulated clean diesel buses (612 EUs) for approximately C\$190 million, consisting of 80 buses purchased on the exercise of options plus an additional 226 articulated buses under the existing bus procurement contract between Ottawa and New Flyer. The new buses will have the latest enhanced design and will be outfitted with: a 2010 EPA compliant Cummins engine, a mini-hybrid cooling package, an anti-graffiti package, smart bus technology for reliability monitoring and an extended industry-leading warranty program. The extended warranty program allows the Company to

Management's Discussion and Analysis

develop key intelligence on the maintenance, monitoring and operation of New Flyer buses from the ground up, while operating in a very close partnership with a substantial operator like OC Transpo.

This purchase allows the City of Ottawa to replace its older articulated bus fleet with modern and fuel efficient buses through an innovative arrangement where New Flyer has provided incentive pricing and has agreed to take in trade OC Transpo's existing fleet of 226 articulated buses. This fleet was originally built and sold by New Flyer to The City of Ottawa and the current average age of these buses is approximately nine years.

While the price for the new buses offered to OC Transpo has been reduced from previous orders, management anticipates that combined profitability through the bus sales, parts sales and used bus sales will provide an appropriate total return to the Company.

New Flyer plans to refurbish the buses that are traded in at its Ontario Service Center and intends to market the buses for re-sale in both domestic and international markets. New Flyer will provide OC Transpo with a trade-in credit for the used buses that can be applied to New Flyer spare parts and service programs.

The first buses are expected to enter production in July 2010, with delivery of the new fleet anticipated to start in August 2010, and completed delivery to occur within approximately one year. Management does not currently anticipate increasing the Company's production rate at its facilities in Manitoba or Minnesota as a result of being awarded the Ottawa order, but rather, it permits the Company to fill the 2010 production schedule and use this large contract run to smooth out production using level loading techniques. Delivery of these buses will allow New Flyer to replace the significant U.S. order deferral announced in 2009. The Ottawa contract also presents the Company with the opportunity to reverse the recent trend of a reduced average number of buses per customer order, largely caused by the previously announced U.S. customer order deferral, and to pursue operational excellence goals and ensure the highest quality. The contract also contains a favourable milestone billing schedule that positively aligns related cash flows.

Management expects that this larger order will have a positive impact on work in process inventory ("WIP") levels during the second half of fiscal 2010, as smaller orders generally increase operating complexities. The timing of the positive impact to WIP as a result the new Ottawa contract is not easily predicted, and as such management still expects that the level of equivalent units in WIP during fiscal 2010 will continue to vary in the range of 245 to 300 equivalent units; however, management believes this should not significantly affect its ability to successfully manage the Company's working capital.

The smaller order sizes that management had anticipated has impacted the WIP levels during 2010 Q1, as smaller orders generally increase engineering, supply and operating complexities. This increased complexity resulted in a 22.0% quarterly increase of equivalent units in work in process as at April 4, 2010. However, this increase had a very small impact on cash as the mix of inventory changed from a lower quantity of high dollar value buses in WIP to higher quantity of lower cost buses. The cost per EU in WIP inventory decreased significantly when the high dollar value hybrids and hydrogen fuel cells buses were delivered in 2010 Q1.

On April 30, 2010, the Company acquired the assets and business of TCB Industries, LLC ("TCB") of Elkhart, Indiana. The acquisition price was approximately \$1.0 million and the purchased business will be operated by New Flyer's newly created subsidiary, TCB Enterprises, LLC.

TCB is a designer and manufacturer of interior LED lighting systems, grab rails and stanchions, drivers' barriers and other miscellaneous bus parts. TCB has been an important supplier to New Flyer since its inception in 2004. New Flyer's acquisition of TCB will provide the opportunity to leverage the capabilities and products developed by TCB with a focus on New Flyer's product control initiatives. New Flyer's strategic plan has identified product innovation control as a key theme to improve overall quality, improve manufacturing efficiencies and enhance customer satisfaction. Through product control, New Flyer will select and focus on systems and components aimed at increasing overall value for its customers and that align with the goal of providing "best bus value and support for life". Management believes that the acquisition of TCB is a significant step in advancing this strategy. Also as a result of the new relationship New Flyer anticipates becoming the distributor of Kiel seating to the U.S. and Canadian transit market. Kiel is the leading manufacturer of transit passenger seats in Europe.

On April 5, 2010, NFI announced its intention to seek shareholder approval for the issuance of IDSs in exchange for the remaining Class B and Class C common shares of NFL Holdings held by certain current and former members of management (the "management

Management's Discussion and Analysis

optionholders") through New Flyer LLC. Under the terms of the Class B and Class C common shares, holders have the right (the "Liquidity Right"), in certain circumstances, to request NFL Holdings to use its best efforts to arrange financing to acquire or purchase for cancellation their Class B and Class C common shares. Historically, the Issuer has completed public offerings of IDSs, the net proceeds of which have been used to finance the purchase of Class B and Class C common shares. Rather than conducting a further public offering of IDSs, the boards of directors of the Issuer have approved, in principle, a series of transactions that will result in the exchange or redemption of the Class B and Class C common shares held by New Flyer LLC and the issuance of new IDSs to the management optionholders (the transactions are referred to as the "Retained Interest Conversion"). In this manner, the management optionholders' existing ownership interest in New Flyer would be converted into a continuing ownership interest in the form of IDSs with a similar result as if the Liquidity Right was exercised for cash proceeds which were in turn used by the management optionholders to acquire newly issued IDSs at the prevailing market price. Upon the completion of the Retained Interest Conversion, the management optionholders are expected to receive, in the aggregate, approximately 2.1 million IDSs, representing approximately 4% of the outstanding IDSs. Accordingly, the management optionholders' aggregate percentage ownership interest in New Flyer's business will remain substantially unchanged. The precise number of IDSs to be issued will be determined in a manner consistent with the securityholders agreement of NFL Holdings and will vary based on the exchange rate between Canadian and US dollars at the time the transactions are completed. From the perspective of ongoing cash distributions, management expects that the issuance of new IDSs in exchange for the Class B Shares and Class C Shares will be either cash flow neutral or slightly accretive for New Flyer. This expectation is based on the current level of distributions paid on the Class B and Class C Shares and the IDSs and the number of IDSs expected to be issued in connection with the Retained Interest Conversion.

The Retained Interest Conversion is subject to approval by NFI's shareholders at the upcoming shareholders meeting to be held on May 13, 2010 and certain other closing conditions. Further details regarding the Retained Interest Conversion are provided in New Flyer's management information circular dated April 9, 2010 which has been mailed to shareholders and is available on SEDAR at www.sedar.com.

2010 First Quarter Financial Results

Consolidated revenue for 2010 Q1 of \$243.0 million decreased 11.1% from consolidated revenue for the 14-week period ended April 5, 2009 ("2009 Q1") of \$273.3 million. This decrease is the result of fewer bus deliveries during 2010 Q1 compared to 2009 Q1, partially offset by a higher average bus selling price and the positive impact of foreign currency translation as a result of the stronger Canadian dollar. Bus manufacturing revenue in 2010 Q1 of \$216.1 million decreased by 11.6% compared to bus manufacturing revenue of \$244.5 million in 2009 Q1, primarily resulting from a volume decrease of 23.6% in total bus deliveries of 453 equivalent units in 2010 Q1 as compared to 2009 Q1 deliveries of 593 equivalent units. The decrease is due to one less week of deliveries during 2010 Q1, as 2009 Q1 included 14 weeks instead of the usual 13-week quarterly reporting period, a reduction in production rates of 16.0% in 2010 Q1 compared to 2009 Q1 and delayed deliveries resulting in a buildup of EUs in WIP during 2010 Q1. Production rates reduced in 2010 Q1 to 39 EUs per week compared to 46 EUs per week in 2009 Q1 as a result of the large contract deferral in July last year and management's expectations of the sustainable production rate. Deliveries have been delayed as a result of a 30% increase in the number of orders being delivered in 2010 Q1 compared to 2009 Q1 due to smaller order sizes. In addition, orders have continuously been moved forward in New Flyer's production schedule since the deferral of the large customer order in July 2009 which has compressed the time available to plan production of orders. As a result of the decrease in order size the Company has experienced increased engineering, supply and operating complexities with less time to plan orders due to expediting orders to fill the production schedule. The negative impact of lower bus deliveries was partially offset by higher average selling prices. The average selling price per equivalent unit delivered in 2010 Q1 was \$477.1 thousand compared to \$412.3 thousand in 2009 Q1, representing an increase of 15.7%. The increase in average bus selling price is attributed to a mix of products sold with a higher selling price, primarily hybrid buses and including the Company's hydrogen fuel cell buses purchased by BC Transit and used during the Vancouver Winter Olympic Games. A normalized average selling price without hydrogen fuel cell buses would have been \$453.6 thousand per equivalent unit during 2010 Q1. 2010 Q1 aftermarket operations revenue of \$26.9 million decreased by 6.9% in 2010 Q1 compared to \$28.9 million in 2009 Q1. This decrease is primarily a result of lower volumes during 2010 Q1 due to one less week compared to 2009 Q1, somewhat offset against a favourable impact of the stronger Canadian dollar on translation of Canadian dollar sales to U.S. dollars.

Consolidated Adjusted EBITDA for 2010 Q1 totaled \$22.2 million compared to \$23.1 million in 2009 Q1, which represents a decrease of 3.8%. In comparing the respective periods, the decrease is primarily a result of lower deliveries (partly due to one less week in 2010 Q1 as compared to 2009 Q1 and a buildup of EUs in WIP at 2010 Q1) which was partially offset by higher average contract margins in the bus manufacturing operations sales mix and the positive impact of the appreciation of the value of the Canadian dollar against the U.S. dollar in 2010 Q1 of approximately \$4.3 million (\$3.1 million increase in bus manufacturing operations and \$1.2

Management's Discussion and Analysis

million increase in aftermarket operations) compared to 2009 Q1. 2010 Q1 bus manufacturing operations Adjusted EBITDA of \$15.7 million (7.3% of revenue) decreased by 7.4% compared to bus manufacturing operations Adjusted EBITDA of \$17.0 million (6.9% of revenue) in 2009 Q1. The increase in bus manufacturing operations Adjusted EBITDA as a percentage of revenue is the result of higher contract margins related to a more favourable sales mix when comparing the two periods. 2010 Q1 aftermarket operations Adjusted EBITDA of \$6.5 million increased by 6.1% compared to \$6.1 million in 2009 Q1, primarily due to the appreciation of the value of the Canadian dollar against the U.S. dollar in 2010 Q1, which was partially offset by the decrease in sales volume.

The Company reported a net loss of \$13.0 million in 2010 Q1 compared to net earnings of \$4.8 million in 2009 Q1. 2010 Q1 net loss was negatively impacted by the increase in non-cash charges and higher interest costs. In 2010 Q1, non-cash charges totaled \$19.5 million compared to non-cash charges included in 2009 Q1 earnings of \$4.1 million. This change in non-cash items included in earnings related primarily to unrealized foreign exchange, fair value adjustments to assets and liabilities and amortization. Unrealized foreign exchange losses charged to earnings in 2010 Q1 were \$11.8 million compared to a gain of \$4.3 million in 2009 Q1 and relate to unrealized foreign exchange on Subordinated Notes, both forming part of an IDS and issued separately from an IDS. Realization of these losses/gains is dependent on the exchange rate on the maturity date (August 2020) of the Canadian dollar denominated Subordinated Notes. Fair value adjustments to other liabilities for Class B and Class C common shares resulted in a non-cash loss of \$1.9 million in 2010 Q1 compared to a non-cash loss of \$2.1 million in 2009 Q1. Losses charged to earnings for the fair value adjustment to other liabilities for Class B and Class C common shares reflect the increase in the value of those shares, which has increased together with the market value of the IDSs during 2010 Q1. Interest expense increased \$2.7 million in 2010 Q1 compared to 2009 Q1, primarily due to the following factors: an increase in the interest on the Subordinated Notes of \$1.0 million due to the foreign currency translation impact of the stronger Canadian dollar, the increase in non-cash fair market value adjustment on the interest rate swap of \$1.0 million and distributions related to the Class B and Class common C shares increased by \$0.7 million. The income tax expense for 2010 Q1 was \$1.2 million which decreased \$1.2 million compared to an income tax expense of \$2.4 million in 2009 Q1. The decrease was primarily the result of a \$1.1 million decrease in current income taxes. The current income tax savings was primarily caused by a \$1.0 million reduction of the valuation allowance, as the decrease in U.S. federal and state incomes taxes offset the increase in Canadian withholding and income taxes.

The Company generated Distributable Cash of C\$15.9 million during 2010 Q1 and declared distributions of C\$14.6 million, which represents a 2010 Q1 payout ratio of 91.5%. By comparison, in 2009 Q1, the Company generated Distributable Cash of C\$18.8 million and declared distributions of C\$14.4 million, resulting in a payout ratio of 76.5%. The 2010 Q1 payout ratio deteriorated 15.0% even though Adjusted EBITDA only decreased 3.8% in 2010 Q1 as compared to 2009 Q1. These results highlight the foreign exchange impact caused by the stronger Canadian dollar against the U.S. dollar for the current period as compared to the exchange rate in 2009 Q1. When the Canadian dollar appreciates in value against the U.S. dollar, the Company's U.S. dollar Adjusted EBITDA increases when the sales mix is weighted with Canadian revenue, but excess Distributable Cash is not as significantly impacted due to the natural hedge provided by Canadian dollar denominated interest and income taxes.

Cumulatively, since the initial public offering on August 19, 2005, the Company has generated Distributable Cash of C\$303.2 million and has declared distributions of \$245.2 million, resulting in a cumulative surplus of C\$58.0 million and a payout ratio of 80.9%.

During 2010 Q1 the Company had an increase in non-cash working capital of \$32.7 million, which management anticipates to be temporary in nature. This increase is substantially the result of increased accounts receivable and decreased accounts payables thereby causing a decrease in the Company's cash balances by \$33.1 million and resulting in a bank indebtedness balance of \$2.4 million at April 4, 2010, as compared to a cash balance of \$30.7 million at January 3, 2010. The bank indebtedness balance of \$2.4 million was calculated from cash on hand net of outstanding cheques, as there were no direct borrowings under the secured revolving credit facility at April 4, 2010. The Company's liquidity position as at April 4, 2010 totaled \$47.6 million net of the bank indebtedness and a \$50.0 million revolving credit facility.

During the 13-weeks ended January 3, 2010 ("2009 Q4"), as a result of working capital fluctuations in the previous quarter, dividend payments by NFL Holdings to NFI and to New Flyer LLC were restricted under the provisions of the note indenture governing the Subordinated Notes. Therefore, during this period, NFI ULC utilized its available cash to make an inter-company loan to NFI to support dividend payments by NFI on its common shares and to support a loan by NFI to New Flyer LLC in lieu of dividends to New Flyer LLC on its Class B and Class C Shares. All of these inter-company loans were repaid in full during 2010 Q1. To fund the loan repayment, an amount equivalent to the dividends that would have been declared on the Class B and Class C Shares but were deferred, plus interest, were included in the 2010 Q1 declared dividends.

Management's Discussion and Analysis

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	Q1	\$ 242,980	\$ 16,518	\$ (12,960)	\$ 22,195	\$ 22,195	(0.27)
	Total	\$ 242,980	\$ 16,518	\$ (12,960)	\$ 22,195	\$ 22,195	(0.27)
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

Fiscal Period	Quarter	Inventory, Beginning (equivalent units) ⁽²⁾	New Line Entry (equivalent units) ⁽²⁾	Deliveries (equivalent units) ⁽²⁾	Inventory, Ending (equivalent units) ⁽²⁾	Inventory comprised of:	
						Work in process (equivalent units) ⁽²⁾	Finished goods (equivalent units) ^{(2) & (4)}
2010	Q1	245	507	453	299	287	12
	Total	245	507	453	299	287	12
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

Management's Discussion and Analysis

COMPARISON OF Q1 AND TRAILING TWELVE MONTHS RESULTS

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

	13-weeks Ended April 4, 2010	14-weeks Ended April 5, 2009	52-weeks Ended April 4, 2010	53-weeks Ended April 5, 2009
Statement of Earnings Data				
Revenue				
Canada	\$ 48,911	\$ 21,440	\$ 264,789	\$ 113,534
U.S.	167,196	223,043	698,538	796,759
Bus manufacturing operations	216,107	244,483	963,327	910,293
Canada	10,010	7,949	37,188	31,018
U.S.	16,863	20,918	68,982	68,904
Aftermarket operations	26,873	28,866	106,170	99,922
Total revenue	\$ 242,980	\$ 273,349	\$ 1,069,497	\$ 1,010,215
Earnings from operations	\$ 16,518	\$ 17,151	\$ 76,854	\$ 64,546
Earnings before interest and income taxes	2,739	19,014	19,487	112,618
Net (loss) earnings	(12,960)	4,781	(48,121)	56,740
EBITDA ⁽¹⁾	22,195	23,073	99,192	89,529
Adjusted EBITDA ⁽¹⁾				
Bus manufacturing operations, includes realized foreign exchange losses/gains	15,732	16,983	74,971	68,446
Aftermarket operations	6,463	6,090	24,221	20,091
Total Adjusted EBITDA ⁽¹⁾	\$ 22,195	\$ 23,073	\$ 99,192	\$ 88,537
Other Data (unaudited)				
Canada	103	99	598	503
U.S.	350	494	1,519	1,751
Total deliveries (equivalent units) ⁽²⁾	453	593	2,117	2,254
Total capital expenditures	\$ 1,707	\$ 1,577	\$ 9,861	\$ 8,927
New options awarded	\$ —	\$ 76,530	\$ 497,415	\$ 1,579,005
New firm orders awarded	5,308	44,674	160,588	306,716
Exercised options	65,073	157,261	513,699	410,777
Total firm orders	\$ 70,381	\$ 201,935	\$ 674,287	\$ 717,493

Management's Discussion and Analysis

(Unaudited, US dollars in thousands)

	April 4, 2010		January 3, 2010		December 28, 2008	
Selected Balance Sheet Data						
Total assets	\$	852,083	\$	869,889	\$	899,344
Long-term financial liabilities		555,024		544,028		415,814
Other Data (unaudited)						
		Equivalent Units ⁽²⁾		Equivalent Units ⁽²⁾		Equivalent Units ⁽²⁾
Firm orders - USA	\$	774,863	1,648	\$	884,347	1,876
Firm orders - Canada		60,359	137		93,407	206
Total firm orders		835,222	1,785		977,754	2,082
Options - USA		2,592,957	6,215		2,653,326	6,365
Options - Canada		214,031	513		217,042	543
Total options		2,806,988	6,728		2,870,368	6,908
Total Backlog	\$	3,642,210	8,513	\$	3,848,122	8,990
					\$	4,072,429
						9,531

Equivalent Units in Backlog (unaudited)	13 Weeks Ended April 4, 2010		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	13	—	444	1,402	765	4,133
Options exercised	143	(143)	1,397	(1,397)	1,093	(1,093)
Shipments	(453)	—	(2,257)	—	(2,164)	—
Cancelled/expired	—	(37)	—	(130)	(40)	(79)
End of period	1,785	6,728	2,082	6,908	2,498	7,033

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

2010	798
2011	887
2012	1,545
2013	2,738
2014	760
Total options	6,728

Notes:

- (1) EBITDA and Adjusted EBITDA are not recognized earnings measures and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See "Definitions of EBITDA, Adjusted EBITDA and Distributable Cash" above. Management believes that EBITDA and Adjusted EBITDA are useful supplemental measures in evaluating performance of the Company and/or the Issuer.
- (2) One equivalent unit represents one 30-foot, 35-foot or 40-foot heavy-duty transit bus. One articulated bus represents two equivalent units.
- (3) Earnings per share are those of NFI.
- (4) Finished goods are comprised of completed buses ready for delivery and bus deliveries in-transit.

Management's Discussion and Analysis

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 April 4, 2010	14-weeks Ended April 5, 2009	52-weeks Ended April 4, 2010	53-weeks Ended April 5, 2009
Net (loss) earnings	\$ (12,960)	\$ 4,781	\$ (48,121)	\$ 56,740
Addback ⁽¹⁾				
Income taxes	1,152	2,396	15,100	9,314
Interest expense	12,921	10,920	50,153	41,385
Amortization	5,677	5,826	22,470	25,066
Gain on disposal of property, plant and equipment	(16)	(17)	(230)	(17)
Non-cash impact of embedded derivative	—	96	(132)	71
Fair value adjustment to embedded derivatives	—	338	449	(361)
Fair value adjustment to other liabilities - Class B and Class C Common Shares	1,945	2,073	4,839	132
Distributions on Class B and Class C Common Shares	1,626	917	2,355	5,179
Unrealized foreign exchange loss on non-current monetary items and forward foreign exchange contracts	11,850	(4,257)	52,309	(47,980)
EBITDA ⁽²⁾	22,195	23,073	99,192	89,529
Follow-on Offering related costs ⁽³⁾	—	—	—	154
Fair market value adjustment to accounts payables and accrued liabilities ⁽⁴⁾	—	—	—	(1,146)
Adjusted EBITDA ⁽²⁾	\$ 22,195	\$ 23,073	\$ 99,192	\$ 88,537
Adjusted EBITDA translated to C\$ at an average foreign exchange rate ⁽⁶⁾	\$ 23,183	\$ 28,571	\$ 107,888	\$ 99,210

Management's Discussion and Analysis

RECONCILIATION OF CASH FLOW TO EBITDA AND ADJUSTED EBITDA

(Unaudited, US dollars in thousands)	13-weeks Ended April 4, 2010	14-weeks Ended April 5, 2009	52-weeks Ended April 4, 2010	53-weeks Ended April 5, 2009
Cash (used in) provided by operations	\$ (27,142)	\$ (34,025)	\$ 32,702	\$ (13,074)
Addback ⁽¹⁾				
Changes in non-cash working capital items	32,688	41,334	2,653	43,975
Defined benefit funding	636	545	3,689	2,415
Defined benefit expense	(478)	(326)	(1,430)	(1,504)
Interest expense	12,300	11,338	47,948	43,894
Distributions on Class B and Class C Shares	1,626	917	2,355	5,179
Foreign exchange gain on cash held in foreign currency	283	(122)	553	(827)
Current income taxes ⁽⁵⁾	2,282	3,412	10,722	9,471
EBITDA ⁽²⁾	22,195	23,073	99,192	89,529
Follow-on Offering related costs ⁽³⁾	—	—	—	154
Fair market value adjustment to accounts payables and accrued liabilities ⁽⁴⁾	—	—	—	(1,146)
Adjusted EBITDA ⁽²⁾	\$ 22,195	\$ 23,073	\$ 99,192	\$ 88,537
Adjusted EBITDA translated to C\$ at an average foreign exchange rate ⁽⁶⁾	\$ 23,183	\$ 28,571	\$ 107,888	\$ 99,210

Notes:

- (1) Addback items are derived from the historical financial statements of the Company.
- (2) EBITDA and Adjusted EBITDA are not recognized earnings measures and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See "Definitions of EBITDA, Adjusted EBITDA and Distributable Cash" above. Management believes that EBITDA and Adjusted EBITDA are useful supplemental measures in evaluating performance of the Company and/or the Issuer.
- (3) Normalized to exclude non-recurring expenses related to the Follow-on Offerings.
- (4) As a result of the revaluation of assets and liabilities resulting from the 2007 Offering, \$1.9 million of the excess purchase price was allocated to accounts payable and accrued liabilities as a fair market value adjustment, resulting in a subsequent non-cash charge to operating costs and expenses upon the culmination of the earnings process.
- (5) As a result of the Company's multinational corporate structure, current income taxes are subject to high degrees of volatility due to the mix of U.S. and Canadian earnings and other related factors. The Company has substantial FTCs available to apply against U.S. federal income taxes. As a result, until FTCs are fully utilized, income subject to U.S. tax is taxed at a substantially lower rate than income subject to Canadian tax.
- (6) U.S. exchange rate (C\$ per US\$) is the weighted average exchange rate applicable to the payment of distributions for the period, which rate is used for comparability to the calculation of Distributable Cash (C\$).

Management's Discussion and Analysis

SUMMARY OF DISTRIBUTABLE CASH

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

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

	13-weeks Ended April 4, 2010	14-weeks Ended April 5, 2009	52-weeks Ended April 4, 2010	53-weeks Ended April 5, 2009	Cumulative since IPO on August 19, 2005
Cash (used in) provided by operations	\$ (27,142)	\$ (34,025)	\$ 32,702	\$ (13,074)	\$ 11,310
Addback (deduct)					
Changes in non-cash working capital items ⁽⁶⁾	32,688	41,334	2,653	43,975	73,322
Capital adjustments					
Maintenance capital expenditures ⁽⁷⁾	(692)	(843)	(2,397)	(3,038)	(8,933)
Principal portion of capital lease payments	(589)	(352)	(1,916)	(1,420)	(5,547)
Non-recurring adjustments					
Follow-on Offering related costs	—	—	—	154	963
Proceeds from sale of redundant assets	16	17	341	17	740
Fair market value adjustment to deferred revenue ⁽¹⁴⁾	—	—	—	—	(799)
Fair market value adjustment to accounts payables and accrued liabilities ⁽¹⁵⁾	—	—	—	(1,146)	(1,900)
Fair market value adjustment to inventory ⁽⁸⁾	—	—	—	—	18,065
Fair market value adjustment to prepaid expenses ⁽⁹⁾	—	—	—	—	347
Withholding taxes ⁽¹⁰⁾	—	—	—	—	9,111
Entity specific adjustments					
Distributions on Class B and Class C Shares ⁽¹¹⁾	1,626	917	2,355	5,179	65,100
Interest on Subordinated Notes forming part of IDSs ⁽¹¹⁾	8,918	8,055	33,510	30,418	106,083
Defined benefit funding ⁽¹²⁾	636	545	3,689	2,415	13,799
Defined benefit expense ⁽¹²⁾	(478)	(326)	(1,430)	(1,504)	(7,217)
Foreign exchange gain on cash held in foreign currency ⁽¹³⁾	283	(122)	553	(827)	1,736
Distributable Cash (US\$) ⁽¹⁾	15,266	15,200	70,060	61,149	276,180
U.S. exchange rate ⁽²⁾	1.0445	1.2383	1.0877	1.1206	1.0980
Distributable Cash⁽¹⁾ (C\$)	15,945	18,822	76,202	68,521	303,233
Distributable Cash per unit ⁽¹⁷⁾ (C\$)	0.32	0.38	1.53	1.36	5.92
Summary of Cash Distributions: ⁽³⁾					
Interest on Subordinated Notes forming part of IDSs (C\$)	9,159	9,159	36,636	33,688	116,330
Dividends on Common Shares forming part of IDSs (C\$)	4,683	4,683	18,732	17,223	57,009
Dividends on Class C Shares (C\$) ⁽¹⁶⁾	1,398	923	2,042	4,870	69,575
Dividends on Class B Shares (C\$) ⁽¹⁶⁾	316	209	461	1,191	7,305
Net loan repayment including interest by New Flyer LLC (C\$) ⁽¹⁶⁾	(969)	(573)	(81)	(14)	(95)
Foreign currency impact on Class B and C dividends (C\$) ⁽⁴⁾	—	—	—	(589)	(4,956)
Total Cash Distributions (C\$)	14,587	14,401	57,790	56,369	245,168
Total Cash Distributions per unit ⁽¹⁷⁾ (C\$)	0.29	0.29	1.16	1.12	4.79
Excess of Distributable Cash (C\$)	1,358	4,421	18,412	12,152	58,065
Excess of Distributable Cash per unit ⁽¹⁷⁾ (C\$)	\$ 0.03	\$ 0.09	\$ 0.37	\$ 0.24	\$ 1.13
Payout ratio	91.5%	76.5%	75.8%	82.3%	80.9%

Management's Discussion and Analysis

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

	13-weeks Ended April 4, 2010	14-weeks Ended April 5, 2009	52-weeks Ended April 4, 2010	53-weeks Ended April 5, 2009	Cumulative since IPO on August 19, 2005
Total Cash Distributions per IDS (C\$):					
Interest on Subordinated Notes (C\$)	0.1936	0.1936	0.7744	0.7744	3.5763
Dividends on Common Shares (C\$)	0.0989	0.0989	0.3956	0.3956	1.7039
Total Distribution per IDS (C\$)⁽³⁾	0.2925	0.2925	1.1700	1.1700	5.2802
Issued and outstanding IDSs ⁽⁵⁾	47,323,100	47,323,100	47,323,100	43,139,601	32,179,790
Dividends per Class C Share (C\$):⁽³⁾					
Preferential Dividend (C\$) ⁽¹⁶⁾	0.2834	0.2518	0.4499	0.4976	2.2347
Residual Dividend (C\$) ⁽¹⁶⁾	0.3971	0.1978	0.5441	0.3956	1.8523
Total Cash Dividend (C\$)⁽¹⁶⁾	0.6805	0.4496	0.9940	0.8932	4.0870
Issued and outstanding Class C Shares ⁽⁵⁾	2,053,657	2,053,657	2,053,657	5,899,887	17,243,824
Dividends per Class B Share (C\$):⁽³⁾					
Preferential Dividend (C\$) ⁽¹⁶⁾	0.2834	0.2518	0.4499	0.4976	2.2347
Residual Dividend (C\$) ⁽¹⁶⁾	0.3971	0.1978	0.5441	0.3956	1.8523
Total Cash Dividend (C\$)⁽¹⁶⁾	0.6805	0.4496	0.9940	0.8932	4.0870
Issued and outstanding Class B Shares ⁽⁵⁾	463,875	463,875	463,875	1,363,298	1,796,040

Management's Discussion and Analysis

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

(Unaudited, US dollars in thousands)	13-Weeks Ended April 4, 2010	14-Weeks Ended April 5, 2009	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)	\$ (16,598)	\$ (25,053)	\$ 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)	16,090	16,281	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)	(2,416)	13,753	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)	16,518	17,151	77,487	68,647
E. Distributable Cash	15,266	15,200	69,994	65,156
F. Actual cash distributions paid or payable relating to the period	13,966	11,630	50,986	51,949
G. (Shortfall) excess of cash flows from operating activities (adjusted as described above) over cash distributions paid (A - F)	(30,564)	(36,683)	9,126	12,683
H. Excess of cash flows from operating activities before changes in non-cash working capital items (adjusted as described above) over cash distributions paid (B - F)	2,124	4,651	20,425	17,282
I. (Shortfall) excess of net (loss) earnings (adjusted as described above) over cash distributions paid (C - F)	(16,382)	2,123	(47,073)	72,494
J. Excess of earnings from operations (adjusted as described above) over cash distributions paid (D - F)	2,552	5,521	26,501	16,698
K. Excess of Distributable Cash over cash distributions paid (E - F)	1,300	3,570	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. Net loss figures for 2010 Q1 are due to the impact of the significant non-cash items and charges. Additionally, cash flows from operating activities and net earnings (loss) are significantly affected by the volatility of current income taxes, which in turn produces temporary fluctuations in the determination of Distributable Cash. As a result, the alternative measures of (i) cash flows from operating activities before changes in non-cash working capital items and (ii) earnings from operations are also shown in the table. A detailed reconciliation of Distributable Cash to cash flows from operating activities is shown in the table above under the heading "Summary of Distributable Cash". A detailed description of the non-cash charges affecting net earnings is contained in the chart below under the heading "Earnings before interest and income taxes and other items".

Notes:

- (1) Distributable Cash is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, Distributable Cash may not be comparable to similar measures presented by other issuers. See "Definitions of EBITDA, Adjusted EBITDA and Distributable Cash" above.
- (2) U.S. exchange rate (C\$ per US\$) is the weighted average exchange rate applicable to the payment of distributions for the period.
- (3) The Issuer declared distributions of C\$1.17 per IDS cumulatively for the 52-week period ended April 4, 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. NFL Holdings has three classes of issued and outstanding common shares. All of the Class A common shares of NFL Holdings are held by NFI. Certain current and former members of management, through New Flyer LLC and, prior to the September 2008 Offering, New Flyer Transit L.P., hold all of

Management's Discussion and Analysis

the issued and outstanding Class B and Class C Shares of NFL Holdings. Dividends were declared on Class A, Class B and Class C Shares during 2010 Q1 and certain inter-company loans were repaid. See "Related Party Transactions".

- (4) Represents the foreign currency impact of the difference between the 1.2038 C\$ per US\$ exchange rate used to calculate the U.S. dollar dividends on the Class B common shares and Class C common 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, \$8.8 million of the excess purchase price was allocated to inventory as a fair market value adjustment, resulting in a subsequent non-cash charge to operating costs and expenses upon the sale of the inventory.
- (9) As a result of the revaluation of assets and liabilities resulting from the 2007 Offering, \$0.2 million of the excess purchase price was allocated to prepaid expenses as a fair market value adjustment, resulting in a subsequent non-cash charge to operating costs and expenses upon the culmination of the earnings process in Fiscal 2007. As well, as a result of the acquisition of NFL Holdings by NFI on the IPO, \$0.2 million of the excess purchase price was allocated to prepaid expenses as a fair market value adjustment, resulting in a subsequent non-cash charge to operating costs and expenses upon the culmination of the earnings process in the 52-week period ended December 31, 2006.
- (10) Payment of withholding taxes related to the period prior to NFI's acquisition of NFL Holdings on August 19, 2005.
- (11) Distributions on Class B and Class C Shares and the interest on Subordinated Notes forming part of the IDs are deducted in the determination of cash from operating activities under GAAP. These amounts need to be added back to calculate the Distributable Cash available to fund all of the Company's cash distributions.
- (12) The cash effect of the difference between the defined benefit expense and funding is included in the determination of cash from operating activities. This cash effect is excluded in the determination of Distributable Cash as management believes that the defined benefit expense amount provides a more appropriate measure, as the defined benefit funding can be impacted by special payments to reduce the unfunded pension liability.
- (13) Foreign exchange gain (loss) on cash held in foreign currency is excluded in the determination of cash from operating activities under GAAP, however, because it is a cash item it should be included in the calculation of Distributable Cash.
- (14) As a result of the revaluation of assets and liabilities resulting from the 2007 Offering, \$0.8 million of the excess purchase price was allocated to deferred revenue as a fair market value adjustment, resulting in a subsequent non-cash charge to revenue upon recognition of the applicable revenue.
- (15) As a result of the revaluation of assets and liabilities resulting from the 2007 Offering, \$1.9 million of the excess purchase price was allocated to accounts payable and accrued liabilities as a fair market value adjustment, resulting in a subsequent non-cash charge to operating costs and expenses upon the culmination of the earnings process.
- (16) New Flyer implemented a procedure pursuant to which certain inter-company loans were made to support dividend payments by NFI on its common shares and in lieu of dividends to New Flyer LLC on its Class B and Class C Shares when regular dividends payable by NFL Holdings were deferred. During 2009 Q4, NFI ULC had available cash but the note indenture governing the Subordinated Notes restricted the declaration and payment of any dividends by NFL Holdings. During 2010 Q1, NFL Holdings resumed making regular dividend payments in the ordinary course in compliance with the note indenture, including the declaration and payment of

Management's Discussion and Analysis

dividends on the Class A, Class B and Class C common shares that were deferred during 2009 Q4 (including applicable interest), and all inter-company loans were repaid in full.

(17) During 2009 Q4, NFI advanced C\$559 to New Flyer LLC, an amount equivalent to the dividends that would have been declared on its Class B and Class C Shares but were deferred until 2010 Q1. This amount plus interest was included in the 2010 Q1 declared dividends.

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

Currency Impact on the Company's Reported Results

The Company's financial statements are presented in U.S. dollars. New Flyer operates in both the United States and Canada and, as a result, its combined reported results are impacted by fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar. These fluctuations can represent a significant component of the variations in reported results from one period to the next. 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 reporting period. However, Distributable Cash and the corresponding payout ratio are less likely to be affected by exchange rate fluctuations given that distributions on IDss are paid in Canadian dollars and the Company has other significant Canadian dollar denominated payment requirements which are not included in Adjusted EBITDA, including interest on the Separate Subordinated Notes, current income taxes and distributions on Class B and Class C shares. For that reason management has made a conscious strategy to mitigate foreign currency exposure based on net cash flow rather than Adjusted EBITDA.

As at April 4, 2010, 7.2% 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 had expected the Company to generate a net Canadian dollar cash outflow during 2010 as a result of the higher percentage of U.S. dollar denominated orders in the Company's backlog. However, the new Ottawa sales order reversed management's expectations back to a net Canadian dollar cash inflow during 2010. The change in Canadian dollar cash outflow exposure will be matched with an increase in foreign exchange forward contracts activity.

Settlements of forward contracts were recorded as realized foreign exchange losses or gains in net earnings for the reported period. The forward contracts should effectively avoid foreign exchange losses and produce a net zero cash impact. However due to timing of the contracts and the realized foreign exchange gains that occur from the settlement of working capital transactions during the period there may be gains or losses reported in any given reporting periods.

At April 4, 2010, the Company had \$33.0 million of foreign exchange forward contracts to buy Canadian dollars at a weighted average agreed exchange rate of \$1.0322 with the last contract expiring September 2010. The related asset of \$0.7 million is recorded on the balance sheet as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts has been recorded in the consolidated statements of operations. As a result of the new Ottawa order the Company will re-evaluate its current foreign exchange position and possibly unwind its current position at a gain, and then book foreign exchange forward contracts to sell Canadian dollars.

Management's Discussion and Analysis

Fiscal and Interim Periods

The Company's 2010 fiscal period is divided into four 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 Q1 (13-Weeks)	2009 Q1 (14-Weeks)
Bus Manufacturing Revenue	\$ 216,107	\$ 244,483
Aftermarket Revenue	26,873	28,866
Total Revenue	\$ 242,980	\$ 273,349
Earnings from operations	16,518	17,151
Earnings before interest and income taxes	2,739	19,014
(Loss) earnings before income taxes	(11,808)	7,177
Net (loss) earnings for the period	(12,960)	4,781

Revenue

Consolidated revenue for 2010 Q1 of \$243.0 million decreased 11.1% from 2009 Q1 consolidated revenue of \$273.3 million. This decrease is the result of fewer bus deliveries during 2010 Q1 compared to 2009 Q1, partially offset by a higher average bus selling price and the positive impact of foreign currency translation as a result of the stronger Canadian dollar. Bus manufacturing revenue in 2010 Q1 of \$216.1 million decreased by 11.6% compared to bus manufacturing revenue of \$244.5 million in 2009 Q1, primarily resulting from a volume decrease of 23.6% in total bus deliveries of 453 equivalent units in 2010 Q1 as compared to 2009 Q1 deliveries of 593 equivalent units. The decrease is due to one less week of deliveries during 2010 Q1, as 2009 Q1 included 14 weeks instead of the usual 13-week quarterly reporting period, a reduction in production rates of 16.0% in 2010 Q1 compared to 2009 Q1 and delayed deliveries resulting in a buildup of EUs in WIP. Production rates reduced in 2010 Q1 to 39 EUs per week compared to 46 EUs per week in 2009 Q1 as a result of the large contract deferral in July last year and management's expectations of the sustainable production rate. Deliveries have been delayed as a result of a 30% increase in the number of orders being delivered in 2010 Q1 compared to 2009 Q1 due to smaller order sizes. In addition, orders have continuously been moved forward in New Flyer's production schedule since the deferral of the large customer order in July 2009 which has compressed the time available to plan production of orders. As a result of the decrease in order size the Company has experienced increased engineering, supply and operating complexities with less time to plan orders due to expediting orders to fill the production schedule. The negative impact of lower bus deliveries was partially offset by higher average selling prices. The average selling price per equivalent unit delivered in 2010 Q1 which was \$477.1 thousand compared to \$412.3 thousand in 2009 Q1, representing an increase of 15.7%. The increase in average bus selling price is attributed to a mix of products sold with a higher selling price, primarily hybrid buses and including the Company's hydrogen fuel cell buses purchased by BC Transit and used during the Vancouver Winter Olympic Games. A normalized average selling price without hydrogen fuel cell buses would have been \$453.6 thousand per equivalent unit during 2010 Q1. 2010 Q1 aftermarket operations revenue of \$26.9 million decreased by 6.9% in 2010 Q1 compared to \$28.9 million in 2009 Q1. This decrease is primarily a result of lower volumes during 2010

Management's Discussion and Analysis

Q1 due to one less week compared to 2009 Q1, somewhat offset against a favourable impact of the stronger Canadian dollar on translation of Canadian dollar sales to U.S. dollars.

Cost of sales

The consolidated cost of sales for 2010 Q1 of \$207.9 million decreased by 13.0% from 2009 Q1 consolidated cost of sales of \$239.0 million. Cost of sales from bus manufacturing operations consists of direct contract costs and manufacturing overhead. The cost of sales from bus manufacturing operations for 2010 Q1 were \$189.8 million compared to \$218.3 million in 2009 Q1, a decrease of 13.0%. The decrease in cost of sales for 2010 Q1 primarily relates to the corresponding decrease in revenue and because of the non-recurring incremental costs that were incurred during 2009 Q1 associated with rectifying a design deficiency related to one significant customer's contract.

The cost of sales from aftermarket operations were \$18.0 million in 2010 Q1 compared to \$20.7 million in 2009 Q1, representing a decrease of 12.8%. This decrease in expenses primarily relates to the decrease in sales volumes offset by higher average product costs due to the stronger Canadian dollar.

Selling, general and administrative cost and other expenses

The consolidated selling, general and administrative cost and other expenses for 2010 Q1 of \$12.5 million increased by 12.0% compared with \$11.2 million in 2009 Q1. This increase is primarily a result of the appreciation of the value of the Canadian dollar when comparing the two periods, as general and administration costs are typically Canadian dollar denominated expenses.

Amortization

2010 Q1 amortization of property, plant and equipment and intangible assets of \$5.7 million has remained fairly stable in comparison to 2009 Q1 amortization of \$5.8 million.

Realized foreign exchange loss (gain)

In 2010 Q1, as a result of the settlement of foreign exchange transactions and working capital accounts, the Company recognized a net realized loss of \$0.4 million as compared with a net realized loss of \$0.2 million in 2009 Q1.

Earnings from operations

Consolidated earnings from operations for 2010 Q1 in the amount of \$16.5 million (6.8% of revenue) decreased 3.7% compared to consolidated earnings from operations in 2009 Q1 of \$17.2 million (6.3% of revenue). Earnings from bus manufacturing operations for 2010 Q1 of \$16.1 million decreased 5.5% compared to 2009 Q1 earnings of \$17.1 million (7.5% and 7.0%, respectively, of bus manufacturing revenue). The decrease in earnings from operations are due to fewer deliveries offset by higher margins in 2010 Q1 which resulted from a more favourable sales mix in the current period as compared to the mix in 2009 Q1 and favourable foreign currency impact due to the appreciation of the value of the Canadian dollar when comparing the two periods. The delivery reduction is partly a result of the growth in WIP resulting from the complexities of the smaller order runs.

The earnings from aftermarket operations of \$6.5 million in 2010 Q1 increased by 6.1% compared to 2009 Q1 earnings of \$6.1 million. The increase is primarily due to impact of the stronger Canadian dollar which offset the decrease in sales volume during the period. Earnings from operations as a percentage of revenue was 24.1% in 2010 Q1 compared to 21.1% in 2009 Q1.

Consolidated earnings from operations in 2010 Q1 have been negatively impacted by \$6.1 million in unallocated items compared with \$6.0 million in 2009 Q1. Unallocated items in earnings from operations in 2010 Q1 are comprised of \$5.7 million of amortization and \$0.4 million of realized foreign exchange losses.

Management's Discussion and Analysis

Unrealized foreign exchange loss (gain)

Unrealized foreign exchange loss charged to earnings in 2010 Q1 was \$11.8 million compared to a gain of \$4.3 million in 2009 Q1 and primarily relate to unrealized foreign exchange gains on Subordinated Notes (both forming part of an IDS and issued separately). Realization of these gains is dependent on the exchange rate on the maturity date (August 2020) of the Canadian dollar denominated Subordinated Notes or settlement date of the forward exchange contract. These results consist of the following:

(Unaudited, US dollars in thousands)	2010 Q1	2009 Q1
Unrealized loss (gain) on Canadian-denominated long-term debt	\$ 12,179	\$ (4,316)
Unrealized (gain) loss on forward foreign exchange contracts	(248)	89
Unrealized gain on other non-monetary assets/liabilities	(81)	(30)
	<u>\$ 11,850</u>	<u>\$ (4,257)</u>

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

In 2010 Q1 the Company recorded EBIT of \$2.7 million compared to EBIT of \$19.0 million in 2009 Q1. EBIT have been impacted by non-cash items as follows:

(Unaudited, US dollars in thousands)	2010 Q1	2009 Q1
Non-cash charges (recovery):		
Fair value adjustment to other liabilities, Class B and Class C common shares	\$ 1,945	\$ 2,073
Fair value adjustment to embedded derivatives	—	338
Non-cash impact of embedded derivatives	—	96
Unrealized foreign exchange loss (gain)	11,850	(4,257)
Gain on disposition of property, plant and equipment	(16)	(17)
Amortization	5,677	5,826
Total non-cash charges:	<u>\$ 19,456</u>	<u>\$ 4,059</u>

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

Absent these non-cash charges/recoveries, the 2010 Q1 EBIT would have been \$22.2 million compared to \$23.1 million in 2009 Q1. The decline in EBIT is primarily a result of decreased earnings from operations in 2010 Q1 as compared to 2009 Q1.

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

Interest expense was \$14.5 million in 2010 Q1 as compared to \$11.8 million in 2009 Q1. Interest expense has increased by \$2.7 million primarily due to the following factors: an increase in the interest on the Subordinated Notes of \$1.0 million due to the foreign currency translation impact of the stronger Canadian dollar, the increase in non-cash fair market value adjustment on the interest rate swap of \$1.0 million and distributions related to the Class B and Class common C shares increased by \$0.7 million (due to the declaration of dividends during 2010 Q1 to fund the repayment of intercompany loans made when the regular dividends had been deferred).

(Loss) earnings before income taxes (EBT)

Loss before income taxes for 2010 Q1 were \$11.8 million compared to EBT of \$7.2 million in 2009 Q1. The decrease in earnings between these periods' results from the non-cash charges as described in the preceding table. The most significant non-cash charge when comparing the two periods is the unrealized foreign exchange loss/gain. As well, the fair value adjustment to other liabilities, Class B and Class C common shares impact EBT. As the market price for the IDSs decreases, so does the fair value of the liability relating to the

Management's Discussion and Analysis

Class B and Class C common shares. The fair value adjustment is recorded against the current period earnings. Conversely, earnings will decrease in the periods in which the IDS price reports an increase in market value. This fair value adjustment is a non-cash item.

Income taxes

The income tax expense for 2010 Q1 was \$1.2 million which decreased \$1.2 million compared to an income tax expense of \$2.4 million in 2009 Q1. The decrease was primarily made up of a \$1.1 million decrease in current income taxes. The current income tax savings was primarily caused by a \$1.0 million reduction to the valuation allowance, as the decrease in U.S. federal and state incomes taxes offset the increase in Canadian withholding and 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 FTC pool.

Net (loss) earnings

The Company reported net loss of \$13.0 million in 2010 Q1 and net earnings of \$4.8 million in 2009 Q1. The decrease in net earnings is primarily attributable to the increase in non-cash charges to earnings as noted above.

Liquidity and Capital Resources

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

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

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

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 Q1 the Company had an increase in non-cash working capital of \$32.7 million, which management anticipates to be temporary in nature. This increase is substantially the result of increased accounts receivable and decreased accounts payables thereby causing a decrease in the Company's cash balances by \$33.1 million and resulting in a bank indebtedness balance of \$2.4 million at April 4, 2010, as compared to a cash balance of \$30.7 million at January 3, 2010. The bank indebtedness balance of \$2.4 million was calculated from cash on hand net of outstanding cheques, as there were no direct borrowings under the secured revolving credit facility at April 4, 2010. The Company's liquidity position as at April 4, 2010 totaled \$47.6 million net of the bank indebtedness and a \$50.0 million revolving credit facility.

As anticipated by management, the smaller order sizes have impacted the WIP levels during 2010 Q1, as smaller orders generally increase engineering, supply and operating complexities. This increased complexity resulted in a 22.0% quarterly increase of equivalent units in work in process as at April 4, 2010. However, this increase had a very small impact on cash as the mix of inventory changed from a lower quantity of high dollar value buses in WIP to higher quantity of lower cost buses. The cost per EU in WIP inventory decreased significantly when the high dollar value hybrids and hydrogen fuel cells buses were delivered in 2010 Q1.

Management currently believes that based on its financial position and liquidity profile at April 4, 2010, the Company will be able to satisfy its current and long-term obligations.

Management's Discussion and Analysis

The Company generated an excess of Distributable Cash of C\$1.4 million during 2010 Q1 compared to an excess of C\$4.4 million in Distributable Cash for 2009 Q1. The Company has achieved a cumulative excess of Distributable Cash since August 19, 2005 of C\$58.0 million.

As at April 4, 2010, 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)	April 4, 2010	January 3, 2010
Senior Leverage Ratio (must be less than 2.25)	1.04	0.67
Total Leverage Ratio (must be less than 4.75)	4.00	3.51
Fixed Charge Coverage Ratio (must be greater than 1.10)	1.76	1.77

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 ("SG&A"). When a receivable balance is considered uncollectible, it is written off against the allowance for accounts receivable. Subsequent recoveries of amounts previously written off are credited against SG&A in the earnings statement.

The following table details the aging of the Company's receivables and related allowance for doubtful accounts at April 4, 2010:

(US dollars in thousands)	
Current, including holdbacks	\$ 102,541
<u>Past due amounts but not impaired</u>	
1 - 60 days	19,323
Greater than 60 days	376
Less: Allowance for doubtful accounts	(32)
Total accounts receivables, net	\$ 122,208

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

Management's Discussion and Analysis

Commitments and Contractual Obligations

Commitments

As at April 4, 2010, outstanding surety bonds guaranteed by the Company amounted to \$18.8 million, which has decreased from \$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 April 4, 2010, letters of credit amounting to \$16.8 million remain outstanding under the letter of credit facility as security for the following contractual obligations of the Company:

(Unaudited, US dollars in thousands)

Collateral to secure operating facility leases	\$	267
Collateral to secure surety facilities		3,599
Customer performance guarantees		12,041
Collateral in support of self-insured workers' compensation obligations		880

Related Party Transactions

During 2009 Q4, certain inter-company loans were made by NFI ULC to NFI to support dividend payments by NFI on its common shares and by NFI to New Flyer LLC in lieu of dividends to New Flyer LLC on its Class B and Class C Shares. All of these inter-company loans were repaid in full during 2010 Q1.

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

The PUP expense totaled \$1.6 million for 2010 Q1, as compared to \$1.6 million recorded under both the LTIP and the PUP in 2009 Q1.

The PUP was implemented for eligible officers and management employees in 2008 and has fully replaced the previous LTIP as at January 4, 2010. The purpose of the PUP is to attract, motivate and reward officers and senior managers of the Company by making a significant portion of their long-term incentive compensation dependent on the Company's financial performance. Awards are made in the form of phantom performance units ("PUs"), which generally vest at the end of a three year period, and will be settled in cash. Compensation expense is recognized on a straight-line basis over the three year period, adjusted to reflect an average trading unit price and Company's performance at each balance sheet date, based on the best available estimates of the outcome of the performance conditions. The Company's obligation under the PUP 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 Q1	2009 Q1
Cash flow from operating activities	\$ (27,142)	\$ (34,025)
Cash flow from financing activities	(4,507)	(3,924)
Cash flow from investing activities	(1,691)	(1,305)

Cash flows from operating activities

The 2010 Q1 net operating cash outflow of \$27.1 million is the result of \$5.5 million of net cash earnings offset by an increase of \$32.7 million in non-cash working capital. The net operating cash outflow in 2009 Q1 of \$34.0 million resulted from an increase in non-cash working capital of \$41.3 million offset by \$7.3 million in net cash earnings.

The 2010 Q1 non-cash working capital changes that are primarily responsible for the significant outflow during the current period are due to an increase in accounts receivables due to the timing of collections under customer contracts and a decrease in accounts payables due to the payments related to the 2010 engine pre-buy campaign. The 2009 Q1 non-cash working capital changes are primarily driven by

Management's Discussion and Analysis

increase in inventory and accounts receivables specifically relating to a significant customer contract with an engineering deficiency, which was being rectified throughout fiscal 2009, and a decrease in deferred revenue, offset by an increase in accounts payables.

Cash flow from financing activities

The Company's financing activities resulted in a net cash outflow of \$4.5 million and \$3.9 million for 2010 Q1 and 2009 Q1, respectively. The increased outflow primarily relates to the increased dividend payments of \$0.6 million, which is attributable to foreign currency translation as a result of the stronger Canadian dollar when comparing the two periods.

Cash flow from investing activities

2010 Q1 investing activities resulted in a net cash outflow of \$1.7 million compared to \$1.3 million in 2009 Q1.

The composition of the capital expenditures was as follows:

(Unaudited, US dollars in thousands)	2010 Q1	2009 Q1
Capital expenditures	\$ 1,707	\$ 1,577
Less capital expenditures funded by capital leases	—	(255)
Cash capital expenditure	1,707	1,322
Comprised of:		
Maintenance capital expenditures	692	843
Growth capital expenditures	1,015	479
	1,707	1,322

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 April 4, 2010, the project continues to be on schedule in accordance with the implementation plan.

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

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

Management's Discussion and Analysis

- i. Business combinations - None will be restated prior to the transition date.
- ii. Fair value as deemed cost - The Company will elect to use at transition date the July 12, 2007 property, plant and equipment valuation as deemed cost, rolling forward from that starting point, any subsequent additions, disposals or amortization. Therefore no adjustment is required at transition date.
- iii. 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 \$2.0 million.

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

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

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

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

Multiple Deliverable Revenue Arrangements ("EIC 175")

In December 2009, the Emerging Issues Committee ("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.

Management's Discussion and Analysis

Controls and Procedures

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining internal controls over financial reporting ("ICFR"), as defined under rules adopted by the Canadian Securities Administrators. ICFR were designed under the supervision of, and with the participation of, the CEO and the CFO. The Company's ICFR are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Management, under the supervision of the CEO and CFO, evaluated the design of the Company's ICFR as of January 3, 2010 in accordance with the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and concluded that the Company's ICFR was not effective due to the existence of a material weakness relating to accounting for income taxes. Management is continuing to explore additional internal control procedures to address this area of weakness. The relatively complex structure of the Issuer and its subsidiaries requires management, with the assistance of external consultants and accounting advisors, to evaluate non-routine and complex tax and accounting issues on a regular basis.

During 2010 Q1, there have been no changes in the Company's ICFR that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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

Disclosure Controls

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

Interim Consolidated Financial Statements of
NEW FLYER INDUSTRIES INC.

April 4, 2010

(Unaudited)

TABLE OF CONTENTS

	Page #
Interim Consolidated Balance Sheets	1
Interim Consolidated Statements of Operations, Comprehensive Income and Deficit	2
Interim Consolidated Statements of Cash Flows	3
Notes to Interim Consolidated Financial Statements	4 - 10

NEW FLYER INDUSTRIES INC.

INTERIM CONSOLIDATED BALANCE SHEETS

As at April 4, 2010

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

	April 4, 2010	January 3, 2010
Assets		
Current		
Cash	\$ —	\$ 30,696
Accounts receivable (note 3)	122,208	103,520
Inventories (note 4)	139,495	139,357
Prepaid expenses and deposits	4,555	5,679
Derivative financial instrument (note 9b)	668	420
Due from related party	—	510
Future income tax assets	8,850	8,767
	275,776	288,949
Property, plant and equipment	37,366	37,215
Intangible assets	369,442	373,408
Future income tax assets	1,978	2,796
Goodwill	167,521	167,521
	\$ 852,083	\$ 869,889
Liabilities		
Current		
Bank indebtedness (note 9c)	\$ 2,361	\$ —
Accounts payable and accrued liabilities	151,042	166,044
Deferred revenue	23,318	25,129
Provision for warranty costs	31,743	31,409
Current portion of performance unit plan liability	2,799	—
Current portion of obligations under capital lease	2,558	2,590
	213,821	225,172
Accrued benefit liability	1,227	1,305
Obligations under capital lease	4,951	5,570
Performance unit plan liability	3,557	4,547
Future income tax liabilities	131,102	133,164
Long-term debt (note 5)	388,724	376,333
Derivative financial instrument (note 9b)	2,500	2,091
Other liabilities, Class B and Class C common shares (note 6)	22,963	21,018
	768,845	769,200
Commitments and contingencies (note 12)		
Shareholders' equity		
Share capital	217,469	217,469
Deficit	(134,231)	(116,780)
	83,238	100,689
	\$ 852,083	\$ 869,889

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

NEW FLYER INDUSTRIES INC.

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

For the period ended April 4, 2010

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

	13-Weeks Ended April 4, 2010	14-Weeks Ended April 5, 2009
Revenue	\$ 242,980	\$ 273,349
Cost of sales (excluding amortization)	207,871	239,022
Sales, general and administration costs and other operating expenses	12,527	11,188
Amortization	5,677	5,826
Foreign exchange loss	387	162
Earnings from operations	16,518	17,151
Unrealized foreign exchange loss (gain) on non-current monetary items	11,850	(4,257)
Gain on disposition of property, plant and equipment	(16)	(17)
Fair value adjustment to embedded derivatives	—	338
Fair value adjustment to other liabilities, Class B and C common shares (note 6)	1,945	2,073
Earnings before interest and income taxes	2,739	19,014
Interest expense		
Interest on long-term debt	11,942	10,914
Accretion in carrying value of long-term debt	212	135
Other interest and bank charges	358	424
Fair market value adjustment on interest rate swap	409	(553)
	12,921	10,920
Distributions on Class B and Class C common shares (note 6)	1,626	917
	14,547	11,837
(Loss) earnings before income tax expense	(11,808)	7,177
Income tax expense (note 8)		
Current income taxes	2,282	3,412
Future income taxes recovered	(1,130)	(1,016)
	1,152	2,396
Net (loss) earnings and comprehensive (loss) income for the period	(12,960)	4,781
Deficit— beginning of period	(116,780)	(69,824)
Net (loss) earnings for the period	(12,960)	4,781
Dividends declared	(4,491)	(3,768)
Deficit — end of period	\$ (134,231)	\$ (68,811)
Net (loss) earnings per share (basic and diluted)	\$ (0.27)	\$ 0.10

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

NEW FLYER INDUSTRIES INC.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the period ended April 4, 2010
(unaudited, in thousands of U.S. dollars)

	13-Weeks Ended April 4, 2010	14-Weeks Ended April 5, 2009
Cash provided by (used in)		
Operating activities		
Net (loss) earnings for the period	\$ (12,960)	\$ 4,781
Amortization of plant and equipment	1,711	1,860
Amortization of intangible assets	3,966	3,966
Gain on disposition of property, plant and equipment	(16)	(17)
Future income taxes recovered	(1,130)	(1,016)
Unrealized loss (gain) on interest rate swap	409	(553)
Unrealized foreign exchange loss (gain) on non-current monetary items	11,850	(4,257)
Accretion in carrying value of long-term debt	212	135
Foreign exchange (gain) loss on cash held in foreign currency	(283)	122
Non cash impact of embedded derivative	—	96
Fair value adjustment to embedded derivative	—	338
Fair value adjustment to other liabilities, Class B and C common shares (note 6)	1,945	2,073
Defined benefit expense	478	326
Defined benefit funding	(636)	(545)
Cash from operating activities before changes in non-cash working capital items	5,546	7,309
Changes in non-cash working capital items (note 7)	(32,688)	(41,334)
	(27,142)	(34,025)
Financing activities		
Repayment of obligations under capital lease	(589)	(352)
Due from related party - New Flyer LLC (held by management)	510	218
Dividends paid	(4,428)	(3,790)
	(4,507)	(3,924)
Investing activities		
Proceeds on disposition of property, plant and equipment	16	17
Acquisition of property, plant and equipment	(1,707)	(1,322)
	(1,691)	(1,305)
Effect of foreign exchange rate on cash	283	(122)
Decrease in cash	(33,057)	(39,376)
Cash — beginning of period	30,696	30,721
Bank indebtedness — end of period	\$ (2,361)	\$ (8,655)

Supplemental cash flow information (note 7)

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

NEW FLYER INDUSTRIES INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

April 4, 2010

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

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements (the “Statements”) have been prepared on a going concern basis by the Company in accordance with Canadian generally accepted accounting principles (“GAAP”) with respect to interim financial statements, applied on a consistent basis. Accordingly, they do not include all of the disclosures required for compliance with GAAP for annual financial statements. These Statements should be read in conjunction with the Company’s audited financial statements for the fiscal period ended January 3, 2010. The accounting policies adopted for the preparation of these Statements are the same as those set out in the Company’s annual audited financial statements for the fiscal period ended January 3, 2010, except as noted below.

These interim consolidated financial statements are presented in U.S. dollars, representing the functional currency of the Company. The following is a summary of significant accounting policies of the Company:

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.

Fiscal periods

The Company’s 2010 and 2009 fiscal periods are divided in 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

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 the most significant estimates and assumptions in determining carrying values include inventories, derivative financial instruments, embedded derivatives, property, plant and equipment, intangible assets, goodwill, provision for warranty costs, accrued benefit liability, accrued bonus liability, performance unit plan liability and future income taxes.

NEW FLYER INDUSTRIES INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

April 4, 2010

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Vendor Rebates

In accordance with EIC 144, "Accounting by a customer (including a reseller) for certain consideration received from a vendor", vendor rebates which are probable and can be reasonably estimated, are recorded as a reduction of the cost of purchases during the period, even if the full requirements for entitlement to these rebates have not yet been met. The amount of vendor rebates recorded is based on purchases-to-date and management's best estimate of rebate levels that will be achieved through the duration of the contract.

New Accounting Policies Adopted

In the first quarter of 2010, the Company adopted a new handbook section issued by the Canadian Institute of Chartered Accountants (CICA):

Business Combinations, *Handbook Section 1582*

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

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

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

3. ACCOUNTS RECEIVABLE

	April 4, 2010	January 3, 2010
Trade	\$ 118,427	\$ 96,375
Other	3,781	7,145
	<u>\$ 122,208</u>	<u>\$ 103,520</u>

4. INVENTORIES

	April 4, 2010	January 3, 2010
Raw materials	\$ 59,095	\$ 57,893
Work in process	76,815	72,729
Finished goods	3,585	8,735
	<u>\$ 139,495</u>	<u>\$ 139,357</u>

During the 13-week period ended April 4, 2010, the cost of sales expense includes \$249 (2009: \$620) in respect of write-down of inventory to net realizable value.

NEW FLYER INDUSTRIES INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

April 4, 2010

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

5. LONG TERM DEBT

	Final Maturity	Face Value	Unamortized Transaction Costs	Net Book Value April 4, 2010	Net Book Value January 3, 2010
Subordinated Notes included in the IDS issue (C\$261,697)	2020	\$ 259,517	\$ 1,720	\$ 257,797	\$ 247,331
Separate Subordinated Notes (C\$43,210)	2020	42,850	172	42,678	40,946
Term Credit Facility	2012	90,000	1,751	88,249	88,056
		\$ 392,367	\$ 3,643	\$ 388,724	\$ 376,333

On April 24, 2009, NFI ULC and NFAI entered into an amended and restated senior credit facility with a syndicate of financial institutions (the "Credit Facility"). The Credit Facility matures in April, 2012. The Credit Facility includes a \$90,000 secured term loan facility (the "Term Credit Facility"), of which \$90,000 was drawn at April 4, 2010, a \$50,000 secured revolving credit facility (with no drawings at April 4, 2010 and January 3, 2010) and a \$40,000 letter of credit facility, which was drawn at \$16,787 at April 4, 2010 (January 3, 2010: \$16,988).

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

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

The Class B common shares ("Class B Shares") and the Class C common shares ("Class C Shares") of NFL Holdings are held by certain current and former members of management through New Flyer LLC.

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)		April 4, 2010	January 3, 2010
464	Class B Shares	\$ 4,230	\$ 3,872
2,054	Class C Shares	18,733	17,146
		\$ 22,963	\$ 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 January 3, 2010	\$ 3,872	\$ 17,146	\$ 21,018
Redemption value adjustment	358	1,587	1,945
Redemption value at April 4, 2010	\$ 4,230	\$ 18,733	\$ 22,963

Due to the liquidity rights provisions of the Class B Shares and Class C Shares, these shares have been recorded as liabilities pursuant to GAAP. The redemption value of the Class B Shares and Class C Shares increases as the market value of the Income Deposit Securities ("IDSs") increases, and decreases as the market value of the IDSs decreases. During the 13-week period ended April 4, 2010, the Company recorded an increase in the liabilities represented by the Class B Shares and Class C Shares of \$358 and \$1,587, respectively, to reflect the current redemption value of those shares calculated in accordance with the provisions of the securityholders agreement governing NFL Holdings.

During the 13-week period ended April 4, 2010, NFL Holdings declared dividends of \$300 and \$1,326 to the holders of Class B Shares and Class C Shares, respectively.

NEW FLYER INDUSTRIES INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

April 4, 2010

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

7. CASH FLOW INFORMATION

Changes in non-cash working capital items

	13-Weeks Ended April 4, 2010	14-Weeks Ended April 5, 2009
Cash inflow (outflow)		
Accounts receivable	\$ (18,688)	\$ (15,221)
Inventories	(138)	(26,463)
Prepaid expenses and deposits	1,124	1,475
Accounts payable and accrued liabilities	(13,509)	13,970
Deferred revenue	(1,811)	(15,712)
Provision for warranty costs	334	617
	<u>\$ (32,688)</u>	<u>\$ (41,334)</u>
	13-Weeks Ended April 4, 2010	14-Weeks Ended April 5, 2009
Cash payments of interest	\$ 12,767	\$ 11,889
Cash payments of income taxes	4,415	1,106

8. INCOME TAXES

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

	13-Weeks Ended April 4, 2010	14-Weeks Ended April 5, 2009
(Loss) earnings before income tax	\$ (11,808)	\$ 7,177
Combined statutory rate	31.0%	33.0%
	(3,660)	2,368
Benefit of deductible share issue costs	(162)	(184)
Valuation allowance (recovered)	(2,252)	219
Withholding and other taxes	900	413
Non-deductible expenses	33	33
Impact of subsidiaries' foreign branch operations	672	1,644
Foreign exchange impact of subsidiaries' foreign branch	4,688	(2,747)
Distributions on Class B and C common shares treated as interest expense	504	303
Impact of other liabilities, Class B and C common shares fair value adjustment	603	684
Other	(174)	(337)
Income tax expense	<u>\$ 1,152</u>	<u>\$ 2,396</u>
Comprised of:		
Current income taxes	\$ 2,282	\$ 3,412
Future income taxes recovered	(1,130)	(1,016)
Income tax expense	<u>\$ 1,152</u>	<u>\$ 2,396</u>

NEW FLYER INDUSTRIES INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

April 4, 2010

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

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Financial Instruments

The Company has made the following classifications:

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

(b) Risk Management

The Company uses derivative financial instruments including interest rate swaps, foreign exchange options and forward foreign exchange contracts. These instruments are financial contracts whose value depends on interest rates and foreign currency prices. The use of derivatives allows the transfer, modification and reduction of current and expected risks, including interest rate, foreign exchange and other market risks. The Company uses derivative financial instruments to manage interest rate and foreign exchange risks in accordance with its risk management policies.

During the 13-week period ended April 4, 2010, the Company recorded realized foreign exchange losses of \$868 (2009: \$9 gain) relating to the settlement of the foreign exchange forward contracts at an agreed exchange rate.

At April 4, 2010, the Company has foreign exchange forward contracts that range in expiry dates from April and September 2010, the related asset of \$668 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.

On April 28, 2009, the Company entered into an interest rate swap with a notional principal amount of \$90,000 which fixes the interest rate on the Term Credit Facility as 2.61% plus the applicable credit spread per the swap agreement, maturing on April 24, 2012. The fair value of the interest rate swap liability at April 4, 2010 is \$2,500 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.

(c) Liquidity Management

The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At April 4, 2010 under the Credit Facility, the Company has a \$50,000 secured revolving credit line. As at April 4, 2010, there were no direct borrowings under this secured revolver as the bank indebtedness balance of \$2,361 at April 4, 2010 was calculated from cash on hand net of outstanding cheques.

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

NEW FLYER INDUSTRIES INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

April 4, 2010

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

10. SEGMENT INFORMATION

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

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

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

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

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

Segment information about profits and assets is as follows:

	13-Weeks Ended April 4, 2010			
	Bus Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	\$ 216,107	\$ 26,873	\$ —	\$ 242,980
Operating costs and expenses	199,988	20,410	—	220,398
Earnings (loss) before income taxes	16,119	6,463	(34,390)	(11,808)
Total assets	432,088	39,057	380,938	852,083
Capital expenditures	1,632	75	—	1,707
Goodwill	162,437	5,084	—	167,521

	14-Weeks Ended April 5, 2009			
	Bus Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	\$ 244,483	\$ 28,866	\$ —	\$ 273,349
Operating costs and expenses	227,434	22,776	—	250,210
Earnings before income taxes	17,049	6,090	(15,962)	7,177
Total assets	476,942	18,804	401,407	897,153
Capital expenditures	1,319	3	—	1,322
Goodwill	162,437	5,084	—	167,521

The bus operations segment has recorded vendor rebates of \$1,272 (2009: \$2,667), which have been recognized into earnings during the period but for which the full requirements for entitlement to these rebates have not yet been met.

NEW FLYER INDUSTRIES INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

April 4, 2010

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

11. EMPLOYEE FUTURE BENEFITS

Defined benefit plan

The Company recorded a net defined benefit pension expense of \$478 (2009: \$326) for the 13-week period ended April 4, 2010.

Defined contribution pension plans

In the United States, the Company maintains two savings retirement plans (401(k) plans). In Canada, the Company maintains a defined contribution plan for salaried employees. The Company recorded a net defined contribution pension expense of \$524 (2009: \$468) for the 13-week period ended April 4, 2010.

Cash payments contributed by the Company during the 13-week period ended April 4, 2010 for its defined benefit and defined contribution pension plans amounted to \$1,160 (2009: \$1,013).

12. COMMITMENTS AND CONTINGENCIES

- (a) Through the normal course of operations, the Company has indemnified the surety companies providing surety bonds required under various contracts with customers. In the event that the Company fails to perform under a contract and the surety companies incur a cost on a surety bond, the Company is obligated to repay the costs incurred in relation to the claim up to the value of the bond. The Company's guarantee under each bond issued by the surety companies expires on completion of obligations under the customer contract to which the bond relates. The estimated maturity dates of the surety bonds outstanding at April 4, 2010 range from April 2010 to May 2012.

At April 4, 2010, outstanding surety bonds guaranteed by the Company totaled \$18,762. The Company has not recorded any liability under these guarantees, as management believes that no material events of default exist under any contracts with customers.

- (b) The Company has a letter of credit facility of \$40,000. As at April 4, 2010, letters of credit totaling \$16,787 remain outstanding under the letter of credit facility as security for the following contractual obligations of the Company:

(Unaudited, US dollars in thousands)

Collateral to secure operating facility leases	\$ 267
Collateral to secure surety facilities	3,599
Customer performance guarantees	12,041
Collateral in support of self-insured workers' compensation obligations	880

As at April 4, 2010, management believes that the Company is in compliance in all material respects with all applicable contractual obligations and the Company has not provided for any costs associated with these letters of credit.

13. SUBSEQUENT EVENT

On April 30, 2010, the Company acquired the assets and business of TCB Industries, LLC ("TCB") of Elkhart, Indiana. The acquisition price was approximately \$1,000 in cash and the purchased business will be operated by New Flyer's newly created subsidiary, TCB Enterprises, LLC.

TCB is a designer and manufacturer of interior LED lighting systems, grab rails and stanchions, drivers' barriers and other miscellaneous bus parts. TCB has been an important supplier to New Flyer since its inception in 2004. New Flyer's acquisition of TCB will provide the opportunity to leverage the capabilities and products developed by TCB with a focus on New Flyer's product control initiatives.