NEW FLYER INDUSTRIES INC.

AND

NEW FLYER INDUSTRIES CANADA ULC

Annual Information Form

March 30, 2012

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NEW FLYER INDUSTRIES INC.
AND
NEW FLYER INDUSTRIES CANADA ULC

GENERAL

The information, including any financial information, disclosed in this Annual Information Form is stated as at January 1, 2012 or for the year ended January 1, 2012, as applicable, unless otherwise indicated. Unless otherwise indicated, all dollar amounts are expressed in U.S. dollars and references to "$", "US$" and "U.S. dollars" are to the lawful currency of the United States. References to C$ are to the lawful currency of Canada. References in this Annual Information Form to "we", "us" "our", "New Flyer" or the "Company" refer to New Flyer Industries Inc. ("NFI") and all of its direct or indirect subsidiaries and references to the "Issuer" refer to New Flyer Industries Inc. and New Flyer Industries Canada ULC ("NFI ULC"). References in this Annual Information Form to "management" are to management of the Company.

Certain statements in this Annual Information Form are "forward-looking statements", which reflect the expectations of management regarding 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 Annual Information Form. 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, including, but not limited to, the factors discussed under "Risk Factors". Although the forward-looking statements contained in this Annual Information Form 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 Annual Information Form and the Company assumes no obligation to update or revise them to reflect new events or circumstances, except as required by applicable securities law.

All of the data presented in this Annual Information Form with respect to market share, the number of heavy-duty transit buses in service and the number of heavy-duty transit 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.

Throughout this Annual Information Form, unless otherwise indicated, all references to "IFRS" are to International Financial Reporting Standards.

Definitions of EBITDA, Adjusted EBITDA and Free Cash Flow

References to "EBITDA" are to earnings before interest expense, income taxes, depreciation and amortization; losses or gains on disposal of property, plant and equipment; unrealized foreign exchange losses or gains on non-current monetary items and forward foreign exchange contracts; fair value adjustments to other liabilities – the former Class B common shares ("Class B Shares") and Class C common shares ("Class C Shares") of New Flyer Holdings, Inc. ("NFL Holdings"); fair value adjustment to embedded derivatives; non-cash impact of embedded derivatives; and distributions on Class B Shares and Class C Shares. References to "Adjusted EBITDA" are to EBITDA after adjusting for: the effects of certain non-recurring and/or non-operations related items that have impacted the business and are not expected to recur, including business acquisition related costs, loss on debt for equity exchange and repurchase, warranty expense assumed as a result of the bankruptcy of ISE Corporation ("ISE"), a supplier to the Company, costs associated with assessing strategic and corporate initiatives, and unrealized investment tax credits, fair market value adjustments to inventory, prepaid expenses, deferred revenue, accounts payables and accrued liabilities resulting from purchase accounting for the initial public offering (the "IPO") on August 19, 2005 of 20,000,000 income deposit securities ("IDS") of the Issuer (as described in note 1 of the consolidated financial statements of NFL Holdings for the period ended December 31, 2006), the public offering on July 12, 2007, of 9,410,000 IDSs (the "2007 Offering"), the public offering on April 10, 2008, of 8,770,000 IDSs (the "April 2008 Offering"), the public offering on September 3, 2008 of 9,143,100 IDSs (the "September 2008 Offering"), and the retained interest conversion transaction resulting in the issuance of 2,152,179 IDSs on June 24, 2010 (the "Retained Interest Conversion", and together with the 2007 Offering, the April 2008 Offering, and the September 2008 Offering, the "Subsequent Offerings") and related costs of the Subsequent Offerings.

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

The Company's method of calculating EBITDA, Adjusted EBITDA and Free Cash Flow may differ materially from the methods used by other issuers and, accordingly, may not be comparable to similarly titled measures used by other issuers. Dividends or distributions paid from Free Cash Flow are not assured, and the actual amount of dividends or distributions received by holders of common shares of NFI ("Shares") and IDSs will depend on, among other things, the Company's financial performance, debt covenants and obligations, working capital requirements, future capital requirements and the deductibility for U.S. federal income tax purposes of interest payments on the 14% subordinated notes of NFI ULC (the "Subordinated Notes"), all of which are susceptible to a number of risks. See "Risk Factors".

Use of Market and Industry Data

This Annual Information Form includes market and industry data that has been obtained from third party sources, including industry publications and industry associations, as well as industry data prepared by management on the basis of its knowledge of and experience in the industry in which the Company operates (including management's estimates and assumptions relating to the industry based on that knowledge). Management's knowledge of the industry has been developed through its experience and lengthy participation in the industry. Management believes that its industry data is accurate and that its estimates and assumptions are reasonable, but there can be no assurance as to the accuracy or completeness of this data. Third party sources generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. Although management believes it to be reliable, neither the Issuer nor management have independently verified any of the data from third party sources referred to in this Annual Information Form or ascertained the underlying economic assumptions relied upon by such sources.

CORPORATE STRUCTURE

The Issuer

NFI is a corporation established under the laws of the Province of Ontario on June 16, 2005. The registered office of NFI is located at Suite 3000, 79 Wellington Street West, Toronto, Ontario, M5K 1N2. Pursuant to articles of amendment dated September 30, 2011, NFI consolidated its Shares on the basis of one post-consolidation Share for every ten pre-consolidation Shares (the "Consolidation"). See "General Development of Business – Recent Developments – Fiscal 2011 and 2012 Year-to-date".

NFI ULC is an unlimited liability corporation originally incorporated under the laws of the Province of Alberta on June 22, 2005 and subsequently amalgamated under the laws of the Province of Alberta on January 4, 2010 and is a wholly-owned subsidiary of Transit Holdings, Inc. ("Transit Holdings"). The address of NFI ULC in Ontario is Suite 3000, 79 Wellington Street West, Toronto, Ontario, M5K 1N2.

The Issuer completed its IPO of IDSs on August 19, 2005. At the time, each IDS consisted of one Share and C$5.53 principal amount of Subordinated Notes. As a result of the Consolidation, the ratio of Shares to principal amount of Subordinated Notes represented by an IDS was automatically adjusted such that each IDS now consists of one Share and C$55.30 principal amount of Subordinated Notes. NFI used the net proceeds from the IPO to acquire 100% of the Class A common shares of NFL Holdings ("Class A Shares"). As a result of the Retained Interest Conversion (see "General Development of the Business – Recent Developments – Fiscal 2010"), NFI owns 100% of the economic and voting interest in NFL Holdings.

NFI ULC is also the issuer of separate 14% subordinated notes that were sold through various private placements and do not form part of the IDSs (the "Separate Subordinated Notes" and together with the Subordinated Notes, the "Notes"). See "Description of Capital Structure — Subordinated Notes".

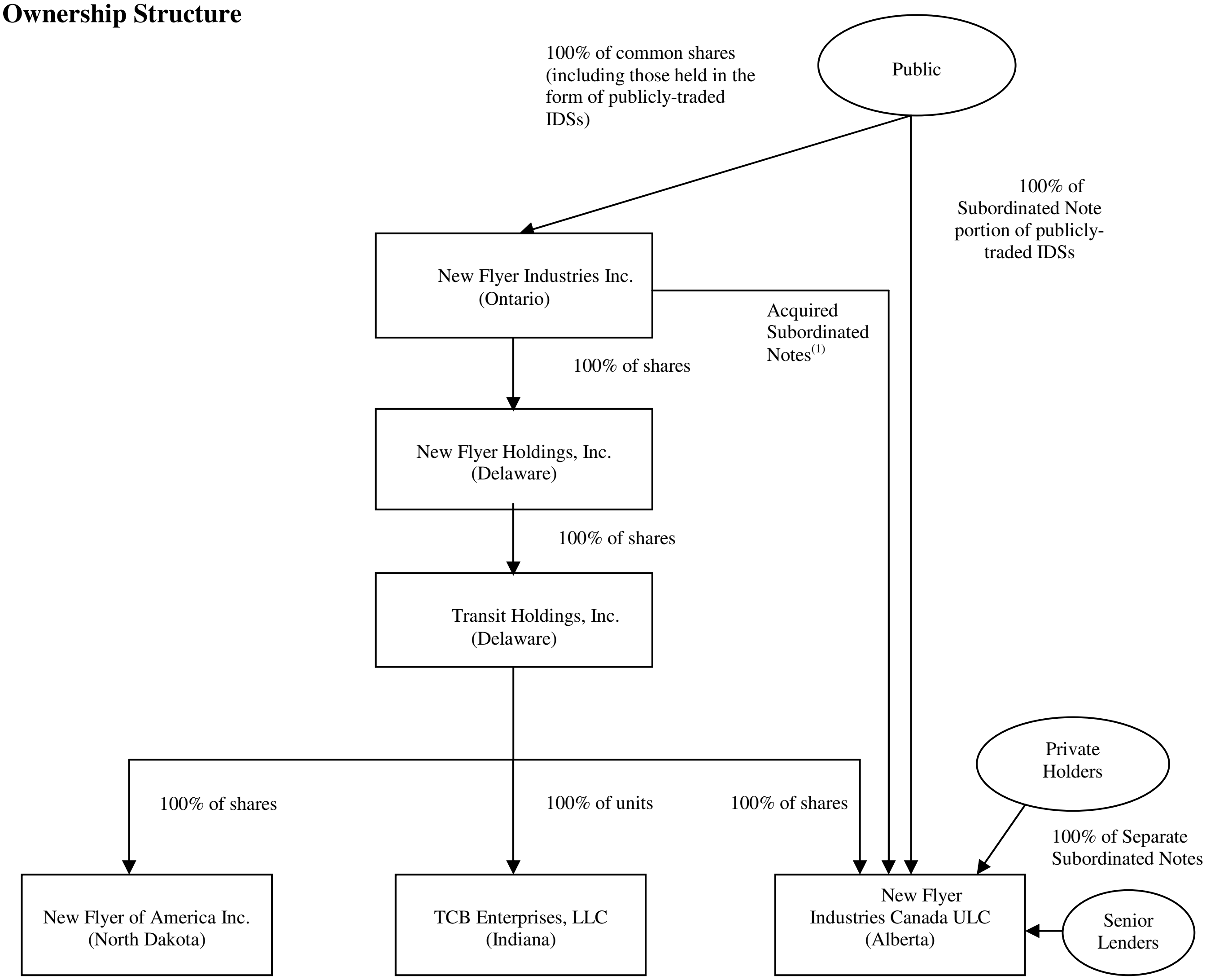
New Flyer Holdings, Inc., Transit Holdings, Inc. and New Flyer of America Inc.

NFL Holdings is a corporation organized under the laws of Delaware on June 21, 2005 and is a wholly-owned subsidiary of NFI. The articles of incorporation of NFL Holdings were amended on March 7, 2011 to eliminate the Class B Shares and Class C Shares and to reclassify the Class A Shares as common shares.

Transit Holdings is a corporation organized under the laws of Delaware on December 4, 2003 and is a wholly-owned subsidiary of NFL Holdings.

New Flyer of America Inc. ("NFAI") is a corporation organized under the laws of North Dakota on October 20, 1989 and is a wholly-owned subsidiary of Transit Holdings.

Ownership Structure



(1) On completion of the Rights Offering (as defined below), NFI acquired the Subordinated Notes tendered by shareholders on the exercise of Rights (as defined below).

GENERAL DEVELOPMENT OF THE BUSINESS

Recent Developments

Fiscal 2009

In January 2009, Mr. Marinucci retired as President and Chief Executive Officer of New Flyer and was replaced by Paul Soubry. Mr. Soubry was previously the President and Chief Executive Officer of StandardAero, and had 24 years of experience with that company. Mr. Marinucci continues to be a director of the Issuer. Mr. Soubry is a director of the Issuer and all of its subsidiaries.

On April 24, 2009, NFI ULC and NFAI, entered into an amended and restated senior credit facility with a syndicate of financial institutions in the form of a $90 million secured term loan facility, a letter of credit facility of up to $40 million and a secured revolving credit facility of up to $50 million (the "First Amended Credit Facility"). The First Amended Credit Facility replaced the credit facility entered into by NFI ULC and NFAI with the syndicate on August 19, 2005.

On November 12, 2009, Ms. Patricia Jacobsen was appointed a director of the Issuer. Ms. Jacobsen served as the Chief Executive Officer of TransLink, the 11th largest transit system in Canada and the U.S., from 2001 to 2008 before retiring. Ms. Jacobsen also sits on other corporate boards. See "Directors, Officers and Management".

Also in 2009 the Company resolved some long-standing warranty issues with two customers and agreed to provide ongoing warranty and campaign support for these customers' buses. The Company also reacted to the indefinite deferral of a large bus order by a major U.S. customer by reducing its line entry production rate and making appropriate adjustments to its labour force. In 2009 the Company also rectified a previously-reported design deficiency relating to a significant customer contract and substantially completed the delivery of the buses to that customer. This customer subsequently placed follow-on orders with the Company.

Fiscal 2010

On April 30, 2010, TCB Enterprises, LLC, ("TCB"), a wholly-owned subsidiary of Transit Holdings, purchased the assets and business of TCB Industries, LLC of Elkhart, Indiana ("TCB Industries"). TCB Industries was a designer and manufacturer of interior LED lighting systems, grab rails and seamless stanchions, drivers' barriers and other miscellaneous bus parts. Management anticipates that New Flyer will leverage the intellectual property, capabilities and product offering of TCB Industries and to increase the benefits of New Flyer's products to its customers. Management also anticipates the Company will use TCB as a vehicle to further explore development of additional bus parts.

On June 24, 2010, the Issuer completed the Retained Interest Conversion resulting in the issuance of 2,152,179 IDSs, representing, at that time, approximately 4% of the outstanding IDSs, in exchange for all of the issued and outstanding Class B Shares and Class C Shares indirectly held by certain current and former members of management. This was the final exercise of liquidity rights pursuant to the securityholders' agreement governing NFL Holdings and following completion of the Retained Interest Conversion, the securityholders' agreement was terminated. As a result, NFI now holds 100% of the economic and voting interest in NFL Holdings. Subsequent to the Retained Interest Conversion, the articles of incorporation of NFL Holdings were amended to eliminate the Class B Shares and Class C Shares and to reclassify the Class A Shares as common shares.

In the second fiscal half of 2010, New Flyer and the City of Ottawa entered into an agreement for the manufacture and sale of 306 new clean diesel articulated buses. The purchase allowed the City of Ottawa to replace its older articulated bus fleet with modern and fuel efficient D60LFR buses through an innovative arrangement where New Flyer provided incentive pricing and agreed to take in trade, the City's existing fleet of 226 New Flyer articulated buses. The arrangement with the City of Ottawa encompassed a number of groundbreaking commercial features, and aligns very well with the Company's strategy to provide best bus value and support for life. The first bus was delivered in the third fiscal quarter of 2010 and the last delivered to the City of Ottawa in the first fiscal quarter of 2011.

Fiscal 2011 and 2012 Year-to-date

In 2011, NFI completed a non-cash rights offering (the "Rights Offering") to facilitate New Flyer's conversion from an IDS structure to a traditional common share structure (the "Common Share Conversion"). Management expects one of the benefits of such a conversion is greater financial flexibility to pursue strategic growth and diversification opportunities. Pursuant to the Rights Offering, each shareholder was issued one right (a "Right") for each Share held, which entitled such shareholder to subscribe for nine additional Shares in exchange for C$5.53 principal amount of Subordinated Notes (being the principal amount of Subordinated Notes represented by each IDS at that time) prior to August 18, 2011, the expiry date for the Rights Offering.

Shareholders exercised approximately 89% of the Rights issued by tendering approximately C$242.3 million principal amount of Subordinated Notes in exchange for 394,315,425 Shares. Immediately following the closing of the Rights Offering, the Shares (including any Shares formerly represented by IDSs) were listed and posted for trading on the Toronto Stock Exchange (the "TSX") under the symbol "NFI".

As part of the Rights Offering, effective with the July 2011 distribution, payable on August 15, 2011 to IDS holders of record on July 29, 2011, the Company decreased its IDS distributions from C$1.17 per annum to C$0.86 per annum (the "Special Distribution"), consisting of an annual dividend payment of C$0.086 per pre-Consolidation Share (compared to the old annual dividend level of C$0.396 per pre-Consolidation Share) and an annual interest payment of C$0.774 per C$5.53 principal amount of Subordinated Note. Following the Consolidation, the Special Distribution was adjusted accordingly and the Company began paying annual dividends of C$0.86 per Share, which, together with annual interest payments of C$7.74 on the principal amount of Subordinated Notes represented by each IDS, result in annual distributions of C$8.60 per IDS. The Board expects to maintain this Special Distribution on a monthly basis until no later than August 2012, the month during which NFI ULC first has the option to redeem the Subordinated Notes, although such distributions are not assured. See "Description of Capital Structure – Dividend and Distribution Policy" for a description of NFI's dividend policy.

On July 26, 2011, NFI ULC and NFAI entered into an amended and restated senior credit facility agreement with a syndicate of financial institutions in the amount of $195 million (the "Credit Facility"). The Credit Facility consists of a $105 million secured term loan facility (including a $15 million delayed draw loan) and a revolving credit facility of up to $90 million (including a $55 million letter of credit sub-facility). The Credit Facility matures on April 24, 2014 and replaces the First Amended Credit Facility. See "Description of Capital Structure – Credit Facility".

On August 29, 2011, the board of directors of NFI (the "Board") adopted a shareholder rights plan (the "SRP"). The SRP was ratified by NFI's shareholders at its special meeting of shareholders held on September 30, 2011 (the "Special Meeting"). The primary objectives of the SRP are (i) to provide the Board with sufficient time to explore and develop alternatives for maximizing shareholder value if an unsolicited take-over bid is made for NFI, (ii) to provide all shareholders with an equal opportunity to participate in such a bid, and (iii) to ensure, to the extent possible, that all shareholders are treated fairly in connection with any take-over bid. The SRP is also intended to ensure that the holders of the remaining IDSs are included and fairly treated in the case of a takeover bid. The SRP was not adopted in response to any specific proposal to acquire control of NFI. Additional details regarding the SRP are described below under the heading "Description of Capital Structure – Share Capital of NFI" and in NFI's management information circular for the Special Meeting dated August 29, 2011 (the "Circular"). Copies of the Circular and the SRP are available on SEDAR at www.sedar.com.

Effective September 30, 2011, NFI completed the Consolidation, pursuant to which one post-Consolidation Share was exchanged for every ten pre-Consolidation Shares, such that the number of outstanding Shares was reduced from 443,790,704 pre-Consolidation Shares to 44,379,070 post-Consolidation Shares (including Shares held in the form of an IDS). In connection with the Consolidation, the ratio of Shares and Subordinated Notes represented by each IDS was automatically adjusted such that each post-Consolidation IDS now represents one Share and C$55.30 principal amount of Subordinated Notes. The Consolidation was approved by NFI's shareholders at the Special Meeting. Additional details regarding the Consolidation are described in the Circular, a copy of which is available on SEDAR at www.sedar.com.

At the beginning of October 2011, the Company opened its fourth parts distribution center in Brampton, Ontario to serve customers in Southern Ontario and Northeastern United States.

Mr. Hans Peper retired as Executive Vice President, Customer Services at the end of 2011. Mr. Peper's responsibilities were assumed by Mr. Ian Smart, who commenced employment at the Company in October 2011. Mr. Smart was previously the Senior Vice President of Airlines and Fleets Division of StandardAero, where he worked for 14 years.

On December 9, 2011, NFI ULC announced the repurchase and cancellation of approximately C$15.7 million aggregate principal amount of Notes for a purchase price of approximately 107% of the principal amount. The repurchase and related costs were financed by utilizing approximately $17 million of the $75 million accordion term loan feature available under the Credit Facility. Management expects that the cancellation of these Subordinated Notes will allow the Company to reduce its interest costs by approximately $1.3 million (on an annualized basis).

In furtherance of its vision of "Operational Excellence" the Company rationalized its Winnipeg real estate footprint by bringing the Publications department into its Parts facility and by reducing excess leased production space.

On March 21, 2012, NFI announced that it had entered into an agreement (the "Coliseum Agreement") with Coliseum Capital Management, LLC ("Coliseum"), which exercises control or direction over approximately 12.60% of the outstanding Shares, pursuant to which NFI has agreed to include a nominee of Coliseum on the slate of directors proposed for election at NFI's 2012 annual meeting of shareholders (the "Meeting") and support such nominee's election as a director at the Meeting and at any meeting of shareholders in respect of the election (or removal) of directors held prior to the 2013 annual meeting of shareholders. Coliseum has agreed to vote its Shares in favour of management's slate of directors during that same period. The Coliseum Agreement also provides that (i) Coliseum will not, subject to certain exceptions, acquire 20% or more of NFI's outstanding Shares or take certain actions in relation to the solicitation of proxies, in each case until the later of six months following Coliseum ceasing to have a representative on the Board and 12 months following the date of the Meeting, and (ii) Coliseum will have a pre-emptive right to purchase Shares in certain circumstances to maintain its proportionate interest in NFI during that same period. Coliseum has nominated Adam Gray, a managing partner of Coliseum, as its nominee under the Coliseum Agreement. However, Coliseum may replace Mr. Gray with another nominee at any time prior to the 2013 annual meeting of shareholders, subject to his replacement being recommended for appointment to the Board by the human resources, compensation and corporate governance committee. A copy of the Coliseum Agreement can be found on SEDAR at www.sedar.com.

DESCRIPTION OF THE BUSINESS

Business of the Company

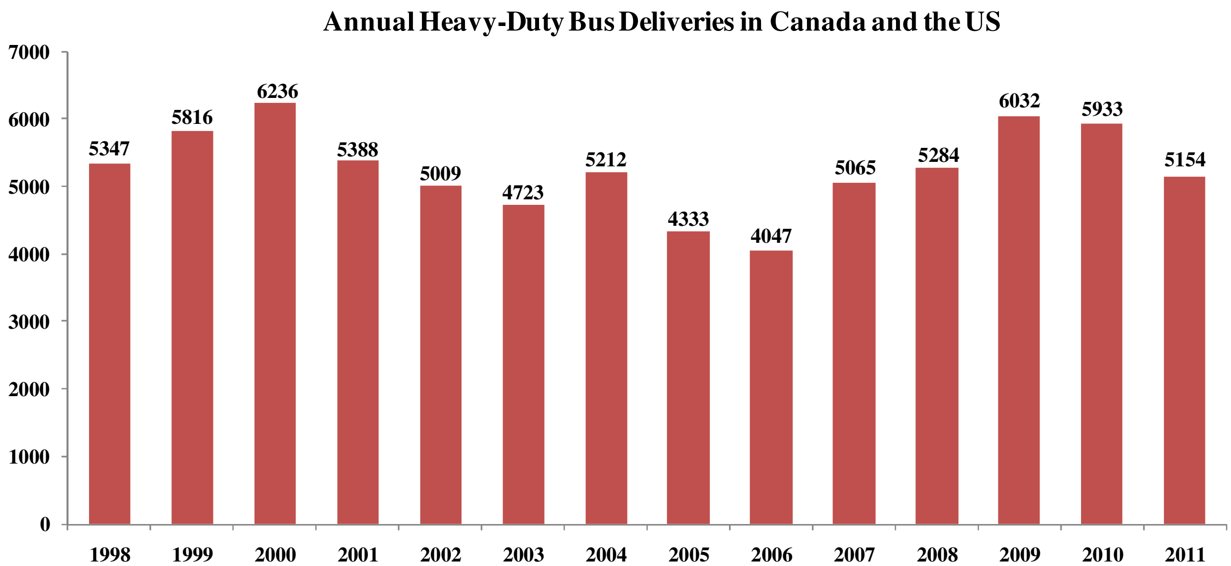
NFI was established to acquire an interest in NFL Holdings. NFI, NFL Holdings and Transit Holdings do not have any ongoing business operations of their own. NFL Holdings depends on the operations and assets of its indirect wholly-owned subsidiaries, NFI ULC and NFAI, for cash distributions. NFI, in turn, depends on NFL Holdings for cash distributions to pay dividends on its Shares. NFI ULC directly pays the interest on the Notes.

Industry Overview

New Flyer is the leading manufacturer of heavy-duty transit buses in the United States and Canada and a leading provider of aftermarket parts and support. Heavy-duty transit buses are the backbone of intra-city urban public transportation systems throughout the United States and Canada. They consist of vehicles that are generally between 30 and 60 feet in length in high and low floor configurations with seating capacity for up to 65 passengers. These buses operate in arduous stop and go conditions, often for up to 16 hours a day, seven days a week. Heavy-duty transit buses use a variety of propulsion systems in addition to diesel, including diesel electric hybrid systems, compressed natural gas ("CNG") or liquid natural gas ("LNG") systems, zero emission electric trolleys and select hydrogen fuel cell systems. There are also development efforts being undertaken in the industry by certain suppliers, including New Flyer, to develop a cost effective all-electric propulsion system for use in transit buses. Municipal and other local transit authorities are the principal purchasers of heavy-duty transit buses.

The broader heavy-duty bus manufacturing industry includes transit buses and motor coaches. The Company currently does not manufacture motor coaches (often referred to as highway coaches). There are well-established US federal funding programs for transit fleet replacements in place. However, most federal funding programs require a local match component, and there has been pressure on local match funding over the last several years due to the impact of the US recession on local tax revenues. There continues to be a trend based on environmental concerns for the expansion of transit services and for the exploitation of new technologies to enhance transit's "green" potential.

Management's estimates of total deliveries of new buses to customers in the United States and Canada over the period from 1998 to 2011 are shown in the chart below.



Source: New Flyer management.
Notes: Deliveries indicated in number of equivalent units.

In the United States, total transit ridership across all modes of transit hit a 50-year high in 2008, with the American Public Transportation Association ("APTA") reporting more than 10.5 billion trips taken on transit systems in the United States. However, as a result of the economic downturn and increased unemployment levels since 2008, ridership had declined in recent years (it being estimated that 60% of transit trips are employment-related). Statistics gathered by APTA indicate however, that bus ridership trends in the United States are beginning to recover. During the fourth quarter of 2011 overall transit bus ridership increased 3.3% compared to the same period in 2010 and increased 1.3% for all of 2011 versus 2010. While the largest increases were experienced by the smaller cities, 2011 was the first year since 2008 in which cities with populations greater than two million people experienced an increase in bus ridership. Management believes the increased ridership is a result of rising employment and higher gasoline prices. In Canada, the Canadian Urban Transit Association reported that ridership increased 4.9% in the first half of 2011 compared to the same period the previous year.

Management estimates that the heavy-duty transit bus industry absorbed approximately 5,100 equivalent units in 2011, significantly down from approximately 5,900 equivalent units in 2010. Management anticipates that for 2012, the market is estimated to slightly decline further or flatten.

Company Overview

New Flyer, founded in 1930 and headquartered in Winnipeg, Manitoba, is the leading manufacturer of heavy-duty transit buses in the United States and Canada and a leading provider of aftermarket parts and support. Management estimates that the Company has an approximate 35% market share of the combined United States and Canadian heavy-duty transit bus industry based on deliveries in 2011. From its production facilities in Winnipeg, Manitoba and Crookston and St. Cloud, Minnesota, New Flyer has the broadest and most advanced product offering in the industry.

New Flyer designs and manufactures a variety of heavy-duty transit buses in 35-foot, 40-foot and 60-foot (articulated) body lengths with diverse propulsion systems, including diesel, diesel-electric hybrid systems, CNG or LNG systems and zero emission electric trolleys. New Flyer developed a 40-foot hydrogen fuel cell bus and these buses were delivered to a customer in 2010. In addition to its engineering and manufacturing capabilities, New Flyer maintains one of the industry's leading aftermarket parts organizations, which is responsible for supporting an extensive range of post-sale activities, including parts distribution, support documentation and training. The New Flyer Field Service department provides comprehensive warranty and field support and is part of the New Flyer Engineering department.

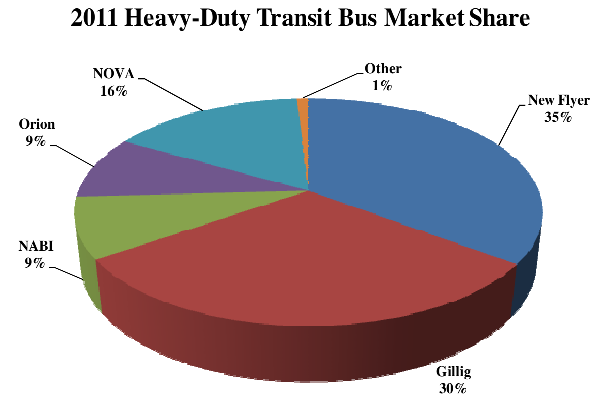
For the fiscal year ended January 1, 2012, New Flyer generated revenue and Adjusted EBITDA of approximately $926 million and $80.1 million, respectively.

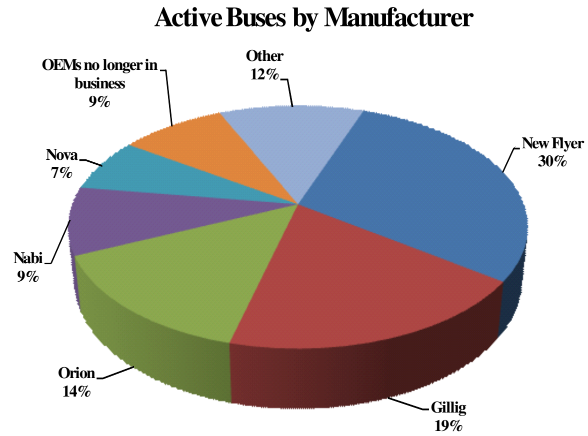
Business Strengths

Management believes that the Company possesses the following key business strengths that allow it to maintain its strong competitive position in its industry.

Leading Market Position

New Flyer has built its leading market position through its broad product offering, extensive in-house engineering capabilities, delivery of buses to specifications, product reliability and aftermarket parts and support capabilities. Management estimates that the Company has an approximate 35% market share of the combined United States and Canadian heavy-duty transit bus manufacturing industry, based on the number of deliveries in 2011. Although New Flyer's market share may fluctuate year-to-year, management believes that since 1999 the Company has consistently maintained the leading market share of the combined United States and Canadian heavy-duty transit bus market. Management believes there are approximately 22,000 New Flyer buses (of the approximately 31,000 buses New Flyer has delivered) currently in service in the United States and Canada. This represents approximately 29% of the estimated 75,000 active heavy-duty transit buses in the United States and Canada.





Source: New Flyer management.

Broadest Product Portfolio and Innovation Leader

New Flyer has the broadest and most advanced product offering in the industry with the engineering capabilities to meet the diverse needs of its customers. The Company produces heavy-duty transit buses with a broad range of standard and alternative fuel propulsion systems. New Flyer is recognized in the industry for product innovation and has consistently been at the forefront of developing and integrating new technologies into its heavy-duty transit buses. Examples of the Company's product innovation include products such as the low floor bus, which has become the industry standard, on-board electronics, bus styling, hybrid drive systems and articulated buses. The Company's broad product offering and innovation leadership is a result of its extensive in-house engineering capabilities that involve many disciplines, such as structural design, powertrain, hydraulic, electrical and HVAC systems. New Flyer's breadth of product offering and its demonstrated product development capability allow it to bid on almost any customer contract in the United States and Canada.

In October 2008, New Flyer introduced Xcelsior, the customer-centric evolution of the standard low-floor transit bus. Its many product improvements make Xcelsior a "best-in-class" vehicle. The first Xcelsior production bus was delivered to a customer in the first half of 2010, with a total of 29 Xcelsior buses delivered to three customers in 2010 and a total of 572 Xcelsior buses delivered to 24 customers in 2011. In 2012, the Company plans to launch a CNG articulated bus based on the Xcelsior model. See "Description of the Business – Product Development and Innovation".

For the fourth consecutive year, New Flyer was named one of Canada's most Earth Friendly Employers based on environmental initiatives and company values.

Employee Focused

The Company was selected by Mediacorp Canada Inc., as one of Manitoba's Top 25 Employers for 2012. The Company was also selected by Mediacorp Canada Inc. as one of the best employers for new Canadians.

High Quality and Diversified Customer Base

Established, Long-Term Relationships with Diverse Customer Base. Twenty out of the 25 largest transit authorities in the United States and Canada (based on the number of buses in service in 2011), operate New Flyer buses. The Company had active business relationships (which includes the sale of parts) with approximately 251 transit authorities in Canada and the United States. It is estimated by the Company that these 251 transit authorities operated approximately 85% of the total heavy-duty transit buses in Canada and the United States in 2011. The average tenure of the Company's relationships with its ten largest customers over the last five years is approximately 16 years.

Repeat Business. New Flyer enjoys significant repeat business from its customer base. Over the last five years, approximately 91% of the Company's annual bus manufacturing revenue has been derived from repeat customers that have purchased buses from the Company during each respective prior five-year period.

No Reliance on Any One Customer. The Company does not generally depend on the same group of top customers for yearly recurring sales. While New Flyer's top ten customers in any year have typically accounted for 50% to 75% of its bus manufacturing revenue in that year, the large contract procurements undertaken by many municipal and local transit authorities every few years generally creates a new customer base for the Company each year.

Aftermarket Parts and Support Capability

Aftermarket parts and support is an important element in the purchase criteria of a transit authority. The Company's leading share of all heavy-duty transit buses currently in service provides recurring demand for and a significant opportunity to grow its aftermarket parts business. The Company provides parts and support for products manufactured by both New Flyer and its competitors. The cost of aftermarket support (including warranty and training requirements) is typically included in the customer's bus purchase contract, while parts are sold separately when required after the initial bus purchase. Management believes that New Flyer provides the most comprehensive aftermarket service and support of all manufacturers in the industry. The Company also distributes its own line of branded service parts under the New Flyer "Kinetik" brand. Aftermarket operations represented approximately 13% of the Company's 2011 revenue and 28% of the Company's 2011 Adjusted EBITDA.

Experienced and Committed Management Team

The Company's senior management team consists of experienced and committed individuals who have implemented robust processes to manage bidding, contracts management, engineering, strategic sourcing, manufacturing, quality assurance and aftermarket parts and service which have resulted in the Company's growth and profitability. Management brings expertise from a wide range of transportation manufacturing industries including bus, railcar, automotive and aerospace.

The executive leadership team participates in the Issuer's performance unit plan and, beginning in fiscal year 2012, the Issuer's restricted share unit plan and all of the Company's senior management team participates in some form of incentive plan. See "Directors, Officers and Management — Performance Unit Plan".

Corporate Strategy

New Flyer's business strategy is as follows:

- New Flyer will maintain market leadership in the heavy-duty transit bus industry in Canada and the United States. The Company will also investigate doing business in export markets, either alone or in ventures with appropriate third parties.

- New Flyer's customer focus will be on both public transit agencies and private operators.

- New Flyer will be both a technology developer and integrator.

- New Flyer will continue to provide traditional aftermarket services such as parts sales, maintenance information, bus field support, warranty services, and product training services. As part of New Flyer's life cycle product support strategy, New Flyer has begun to provide vendor-managed parts inventory services and is investigating fleet management services, provision of maintenance programs and developing and delivering product reliability services.

Mission Statement and Operating Principles

The Company's mission statement is – "To deliver the best bus value and support for life."

Underlying New Flyer's mission, the Company has defined four basic operating principles or "the Company DNA" to provide guidance to employees, partners and suppliers how the Company will achieve both strategic and operating goals.

1. Maintain a great place to work that promotes safety and fosters personal development.

2. Continuously pursue Operational Excellence.

3. Develop comprehensive relationships with customers to service and support their pursuit of lowest life cycle operating costs.

4. Embrace suppliers and partners to ensure a seamless supply of parts and components for the life of a bus.

Strategy and the Strategic Architecture

The Company has also implemented a Strategic Architecture with three primary filters by which the Company will evaluate all strategic and growth opportunities:

- *Life Cycle Support.* "Life Cycle Support" means offering customers continuous support throughout the operating life of the Company's products to ensure that such products are always ready for operation at the lowest operating cost.

- *Product Innovation.* "Product Innovation" means pursuing product improvements that are linked directly to customer benefits. The Company will strive to either own or control as much intellectual property used in its products as possible.

- *Product Optimization.* "Product Optimization" means striving to reduce unnecessary product variation by pro-actively working with customers to select and validate the best value and most appropriate technical options and features. This does not mean limiting the range of core products offered by New Flyer.

Operational Excellence

Beginning in 2009 and continuing through 2011, one of the primary operational focuses of the Company is on developing and implementing strategies and tactics to support "Operational Excellence", one of the Company's core operating principles.

The Company's vision of "Operational Excellence" is to provide and maintain for all employees a safe, clean and efficient working environment to become the most efficient heavy-duty transit bus manufacturer and achieve the highest level of first-time quality in its products through the implementation of well-defined and robust processes and procedures that are sustainable for future growth. Management believes that Operational Excellence has resulted in improved employee safety and morale and overall customer satisfaction and reduce cost of manufacturing.

The Operational Excellence focus has been in three key areas: management processes, facility transformation and cultural transformation. Several management processes were enhanced and strengthened in a variety of ways, including the following:

(i) the review and development of the Company's new corporate strategy, mission statement and core operating principles,

(ii) the addition of the human resources and quality assurance executive positions to the executive leadership team,

(iii) the introduction of a broader cross-company leadership team consisting of approximately 90 key director and senior managers within the Company and across all New Flyer facilities,

(iv) the implementation of standardized manufacturing cell performance metrics in order to assist the Company in monitoring, improving and achieving manufacturing and quality performance objectives,

(v) the development of the New Flyer Institute in order to provide comprehensive and standardized training and skills development and leadership and management training and development for all of the Company's employees. See "People and Labour Relations – 'A Great Place to Work' and New Flyer Institute",

(vi) the introduction of innovative employee internal communication tools such as "iBus" and the reinforcement of strong and consistent communication between management and New Flyer's employees. See "People and Labour Relations – iBus and Enhanced Employee Communication", and

(vii) the continuing focus on and improvement to New Flyer's employee safety and environmental management processes.

Another key area of focus has been the transformation of the Company's facilities to support Operational Excellence. These initiatives included:

(i) the clean-up and standardization of all of the Company's manufacturing cells in accordance with 5S principles. 5S is one of the pillars of Lean Manufacturing and means "Sort, Set in Order, Shine, Standardize and Sustain". In short, 5-S is the process by which a manufacturer can ensure there is a place for everything and everything is in its place, clean and ready for use. The Company's efforts in standardization included the scrapping of unused material, implementing standardized shadow boards for tools, providing improved signage for production stations and improving the lighting in the facilities. The 5S transformation was completed in 2010 and is now part of the Company's business systems, with regular audits,

(ii) after successfully cleaning and organizing the facilities, the Company implemented a number of "Lean Events" in 2011 through a process called "value stream mapping" which focuses on improving efficiency, space and inventory utilization through the elimination of waste. These VSM events will continue to be a primary focus for 2012, and

(iii) as a result of successfully cleaning and organizing the facilities and after analyzing the historical costs of hiring contractors to provide certain services, the Company has brought certain work in to its facilities in order to reduce costs.

As indicated above, the next step in the Company's Lean Manufacturing journey is "value stream mapping". Value stream mapping is a process where the current state of a problematic manufacturing process is mapped out from beginning to completion. Waste in the manufacturing process, which is defined as an activity that does not create value for the customer, is identified. Employees, including the executive leadership team, then brainstorm for solutions to reduce or eliminate the waste and a plan is developed to put the solutions into action. By maximizing the time spent on value-added activities and thereby reducing waste in manufacturing process, management believes value can be added to the customer. Management believes this in turn will make the Company more efficient, improve product quality and assist the Company in becoming more competitive in the market.

Product Lifecycle Management

During the second half of 2010, New Flyer commenced the implementation of its Product Lifecycle Management ("**PLM**") initiative to create an enabler for the Company's Life Cycle Support, Product Innovation and Product Optimization strategic initiatives. Management anticipates that over time, PLM will enable the Company to better manage information about its products within a single information environment, from initial concept through to manufacturing and then to aftermarket service and support. Moreover, PLM will tie together all product-related processes, data and non-product documentation. As part of the implementation of PLM, all elements of product data (e.g., requirements, designs, development schedules, etc.) will be incorporated into the processes undertaken by the Company's various departments, including Sales, Supply Management, Engineering, Manufacturing, Service and Publications. Management believes that the implementation of PLM will result in reduced design engineering cycle times, improved productivity as access to product related data is enhanced, and reduced total costs of the Company's operations.

Company History

New Flyer's predecessor was founded in 1930 as a manufacturer of motor coaches and school buses. The Company adopted the name Flyer Industries Limited in 1971, at which time the Company began to focus exclusively on heavy-duty transit buses. With its acquisition in 1986 by Den Oudsten, B.V. ("Den Oudsten"), Holland's largest bus manufacturer, the Company became New Flyer Industries Limited. Den Oudsten was an innovation leader in the European bus manufacturing industry, having been the first manufacturer to introduce the low floor bus concept. Den Oudsten brought the low floor bus to North America through New Flyer in 1988 and it eventually became the industry standard in the United States and Canada.

As part of the Company's growth in the United States market, in 1990 a separate final assembly plant was established in Grand Forks, North Dakota to complete bus shells manufactured in Winnipeg. In 1996, final assembly was moved from that facility to the current facility in Crookston, Minnesota. In 1998, in response to continuing market share growth, New Flyer increased its production capacity in Winnipeg and Crookston by approximately 50% and opened a dedicated aftermarket parts and service facility in Winnipeg. In late 1999, in response to "Buy-America" legislation and continuing market share growth, the Company constructed a third state-of-the-art assembly plant with fully integrated production capabilities in St. Cloud, Minnesota.

With this increase in manufacturing capacity in late 1999, the Company focused on expanding its customer base and successfully grew its market share. However, engineering capacity constraints in a period of rapid expansion, poor supply management and manufacturing and quality control issues led to production bottlenecks and delayed deliveries. This resulted in significant increases in work-in-progress inventory, which in turn created liquidity issues in the form of higher working capital requirements. As a result, in 2001, New Flyer was unable to secure surety bonding facilities, which limited the Company's ability to take new orders. New Flyer temporarily suspended production of new orders and reallocated the workforce to complete its work-in-progress for delivery and final acceptance. In March 2002, a private investor group acquired a controlling interest in the Company, allowing New Flyer to secure new surety bonding facilities and address its production and operational challenges. Despite its operational and financial difficulties during that period, to management's knowledge, the Company never lost an existing contract or had a surety bond drawn.

In 2002, a new Chief Executive Officer and several senior managers were recruited to lead operational and manufacturing process improvements as a complement to the group of bus sales and aftermarket parts and service managers. Management significantly reduced costs, developed and installed controls in the manufacturing process, reduced engineering lead time, restructured manufacturing lines and negotiated extensions to key union contracts. With the renewal of the Company's surety bonding facilities and the demonstrated operational improvements, management successfully rebuilt the Company's order book, increased production, reduced work-in-progress and significantly enhanced profitability. These improvements led to growth of the Company's revenue and Adjusted EBITDA.

In February 2004, New Flyer was acquired by a new ownership group. In August 2005, the Issuer completed the IPO. Between July 2007 and June 2010, the Issuer completed the Subsequent Offerings.

In 2008, the Company added a second parts distribution centre in northern Kentucky in order to more effectively and efficiently service parts customers along the eastern United States. In 2009, the Company added a third parts distribution centre in Fresno, California in order to serve the service parts customers in the western United States.

Resulting from the Company's application of its Operating Principles, including the Company's desire to form stronger relationships with its customers, to demonstrate the Company's commitment to and support of its products and to explore the expansion of its service business, the Company opened a service centre in Arnprior, Ontario at the beginning of 2010 from where it provides bus warranty, technical and integrated supply chain services for the buses operated by the City of Ottawa. In the fall of 2011, the Company opened a fourth parts distribution centre in Brampton, Ontario to serve customers in Southern Ontario and Northeastern United States.

Products and Services

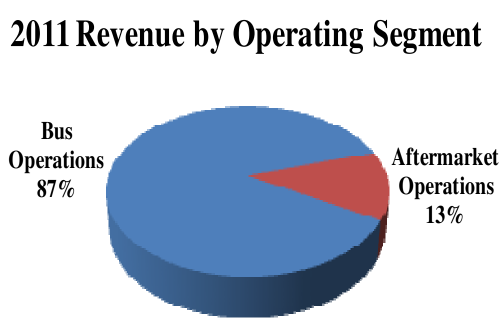
New Flyer derives its revenue and cash flows from the following two segments:

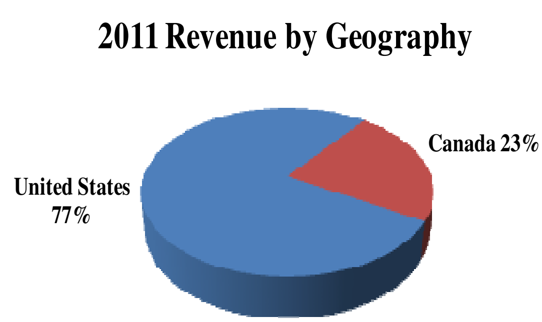
- *Bus Manufacturing Operations* — design, manufacture and sales of heavy-duty transit buses of various body lengths with diverse propulsion systems. Bus manufacturing operations represented approximately 90%, 89% and 87% of New Flyer's total 2009, 2010 and 2011 revenue, respectively.

- *Aftermarket Operations* — support of all post-sale activities, including parts distribution (and revenue from used bus sales in 2011), field services, support documentation and training. Aftermarket parts distribution represented approximately 10%, 11% and 13% of New Flyer's total 2009, 2010 and 2011 revenue, respectively.

The following chart shows the breakdown of New Flyer's 2011 revenue by operating segment and revenue by geography:

2011 Revenue Breakdown
(Total Revenue: $926 million)

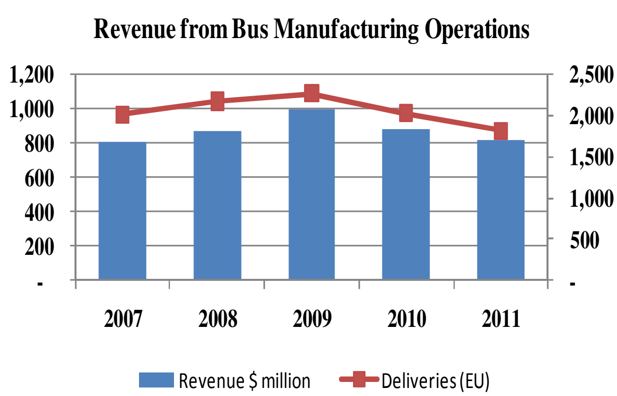


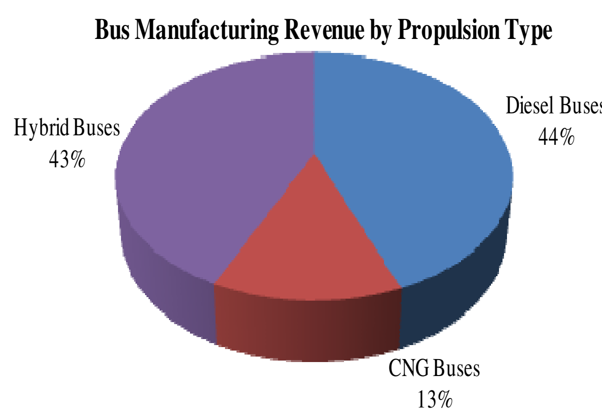


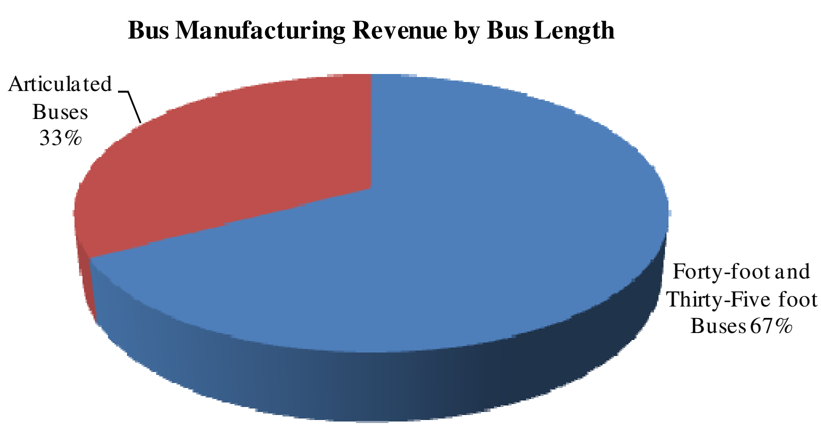
Bus Manufacturing Operations

New Flyer has the broadest and most advanced product offering in the combined United States and Canadian heavy-duty transit bus industry, giving it an advantage when competing for new customer contracts. The Company's sales, reputation, product range, engineering capabilities and product quality position it as the leading manufacturer in the industry and in specialty areas such as bus rapid transit vehicles, electric trolleys and hydrogen fuel cell buses. New Flyer offers the following bus models, all of which can be modified to meet a wide range of customer specifications:

Model	Lengths	Propulsion System(s)
Transit	35', 40', 60'	Clean Diesel, CNG, LNG and Diesel-Electric Hybrid
BRT	35', 40', 60'	Clean Diesel, Diesel-electric hybrid
Trolley	40' and 60'	Electric
Fuel Cell	40'	Hydrogen Fuel Cell Hybrid







Heavy-duty transit buses are customized to meet specific customer needs and preferences based on weather and other geographic and local factors. Each customer contract includes a precise set of engineering specifications for the buses being ordered. New Flyer's sales and engineering departments work directly with the customer to ensure that all specifications are met and that any changes to the specifications are seamlessly incorporated into the production process. Major variations to components such as power trains, suspension systems, windows, doors, driver and seating arrangements are, for the most part, pre-engineered to ensure that the Company can accommodate each customer's needs without significant additional cost.

Product Development and Innovation

New Flyer continually seeks new solutions to meet the needs of its customers, and many of its product innovations have become the industry standard. The sales group tests design criteria and concepts with select customers to identify products that will be viable in the marketplace. The Company ensures that its engineering capacity is appropriately balanced between new product development and ongoing manufacturing operations.

Once successfully test-marketed with customers, innovation concepts are directed to the Company's New Product Development group ("NPD") for development and prototyping. NPD's primary objectives are to implement product design concepts, fabricate, test and certify engineering prototypes, and develop practical solutions to problems identified by the engineering and marketing departments and customers.

Product innovations introduced into the heavy-duty transit bus market in the United States and Canada by New Flyer include:

Low Floor Bus — Introduced by New Flyer in 1988, low floor buses have become the industry standard in the United States and Canada. Low floor buses permit passengers to board and exit the bus more quickly and allow for improved accessibility, particularly for children and disabled and elderly individuals.

Programmable Logic Control ("PLC") — Introduced by New Flyer in 1992, a PLC system is an on-board local network system that controls many of the electrical functions of a transit bus. Since 1993, all of the Company's transit buses have been manufactured with a PLC system.

Articulated Body — 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. New Flyer introduced the articulated 60-foot low floor bus in 1996 and has been the leading manufacturer of articulated high floor and low floor buses in the United States and Canada for the last 15 years.

Hybrid Propulsion Systems — New Flyer pioneered the integration of hybrid propulsion systems, replacing conventional diesel powerplants with diesel engines coupled with generators. In conjunction with the engine/generator, a roof-mounted battery pack provides the additional power required when a bus is accelerating or climbing grades. Hybrid propulsion systems are now well-accepted in the industry and assist in reducing greenhouse gases and improve fuel efficiency.

Alternative Fuels — New Flyer was the first manufacturer to promote both CNG and LNG propulsion systems in high floor and low floor body types. Since the products were introduced, approximately 4,500 CNG and LNG buses have been delivered to customers by New Flyer. In 2012 New Flyer plans to launch a CNG articulated bus based on the Xcelsior model.

Hydrogen Fuel Cell Buses — New Flyer first began development of hydrogen fuel cell buses in 1993, when it, along with its technology partners, introduced the world's first fuel cell bus. Twenty 40-foot hydrogen fuel cell buses were delivered to BC Transit in 2010 and were showcased at the 2010 Winter Olympics in Whistler, BC. Given the infancy of such technology and no current customer orders for hydrogen fuel cell buses, management has no visibility into whether this product will be sold to any customers in the near future.

Electric Trolleys — An electric trolley is a bus powered by electricity from overhead wires. New Flyer manufactures both 40-foot and 60-foot (articulated low floor) heavy duty electric trolley buses, with all the standard features of its diesel counterpart, creating an environmentally-friendly solution for urban transit operators. Management believes the Company is the only manufacturer in the United States and Canada qualified to build electric trolley buses. The Company has provided next generation electric trolley buses to Vancouver and Philadelphia.

Bus Rapid Transit — New Flyer developed and has, since 2006, manufactured new bus rapid transit ("BRT") vehicles in both 40-foot and 60-foot lengths. BRT provides efficient intra-city transit using high capacity buses and dedicated lanes. BRT is an option for municipalities seeking an alternative or complement to light rail.

Xcelsior — In 2008, New Flyer introduced Xcelsior, the customer-centric evolution of the standard low-floor transit bus. Its many product improvements make Xcelsior a "best-in-class" vehicle. Xcelsior is lighter in weight than New Flyer's current standard bus designs, which can immediately deliver improved fuel economy to customers. In independent third-party testing at Altoona's test facility, Xcelsior achieved the highest ever recorded miles per gallon for buses in its class. Upgraded styling, a redesigned bumper and LED headlamps address customers' expectations for an advanced vehicle design. A single-reduction axle, all wheel disc brakes and improved access to components 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 reduces interior noise levels. Passengers and drivers can enjoy improved ride quality, better visibility, interior LED lighting and many other interior advancements, including a new dashboard and instrument panel for the operator. The first Xcelsior production bus was delivered to a customer in the first half of 2010, with a total of 29 Xcelsior buses delivered to three customers in 2010 and a total of 572 Xcelsior buses delivered to 24 customers in 2011. In 2012, the Company plans to launch a CNG articulated bus based on the Xcelsior model.

Battery Electric Bus — New Flyer is currently developing a battery electric bus. Management expects to conduct initial road tests of the prototype bus in the first half of 2012.

Aftermarket Parts and Support Services

Aftermarket parts and support have become increasingly important to transit authorities in their purchase decisions. The increasing complexity of the technologies of transit buses, combined with transit authorities' increasingly constrained operating budgets and high bus utilization levels, have in the past driven demand for aftermarket parts and support. The Company's leading share of heavy-duty transit buses currently in service provides recurring demand for and a significant opportunity to grow its aftermarket parts and service business. The Company provides parts and support for products manufactured by both New Flyer and its competitors. Management believes that New Flyer provides the most comprehensive aftermarket support of all manufacturers in the industry.

Delivering the best bus value and support for life and maximizing the life cycle support opportunities are also key elements of the aftermarket parts and support team's strategy. This includes providing services in the areas of maintenance material supply chain, special labor services for selected maintenance and repair programs, bus maintenance management support, and the ongoing development of new products and kits in support of the bus maintenance process. New Flyer has also begun providing vendor-managed parts inventory services.

Given the Company's position in the industry, and the current general drive for cost reduction in the areas of bus maintenance, New Flyer is well-positioned to maximize the opportunities to provide life cycle support services to the transit industry.

Aftermarket parts and support services consist of the following components:

Parts

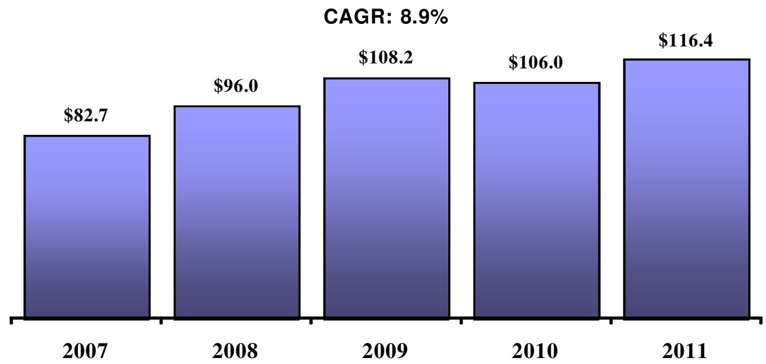
The aftermarket parts team is recognized as a leader in its area, both in size and service quality. It distributes a wide assortment of service parts for a variety of models of heavy-duty transit buses, including buses built by other manufacturers. Competitors in the aftermarket parts business include competing transit bus manufacturers, bus parts distributors and parts divisions of related industries (e.g., heavy-duty trucks). New Flyer, with an estimated market share of 17% in 2011 in the transit parts business, provides the following competitive advantages over its competition: widest original equipment product assortment, most distribution centers in North America and tremendous industry knowledge and the ability to cross reference products to create solutions for customers. New Flyer also distributes its own line of service parts under the New Flyer "Kinetik" brand. The cost of aftermarket support is typically included in the customer's bus purchase contract, while parts are sold separately when required after the initial bus purchase.

Part of the Company's long-term strategy is to implement warehousing and distribution capability to provide industry-leading response times to all of New Flyer's customers in Canada and the United States. As a result, a parts distribution centre was opened in 2008 in northern Kentucky, a parts distribution centre was opened in 2009 in Fresno, California and a fourth parts distribution centre was opened in Brampton, Ontario in 2011. This network of strategically located parts distribution centres has significantly improved the response times to the customers and minimizes transportation costs. This industry-leading network also provides a solid logistics infrastructure to facilitate planned growth in the new and additional areas of customer life cycle support.

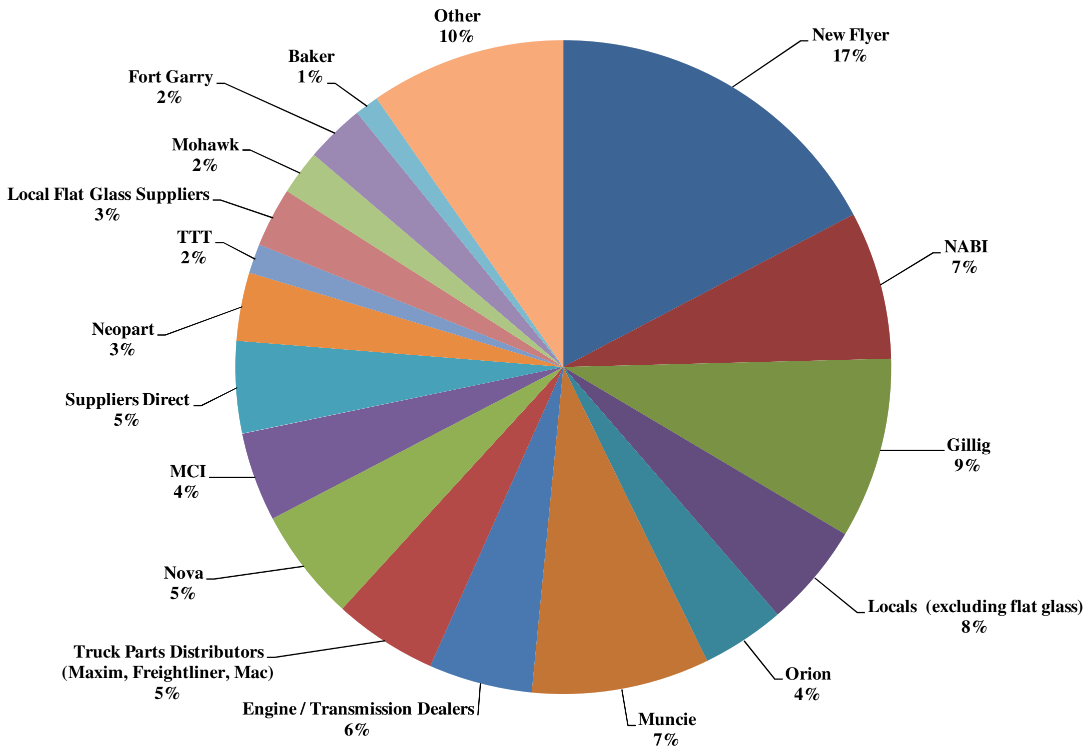
New Flyer's aftermarket parts and service segment has grown over the last five years. However, the aftermarket parts sector contracted slightly in 2010 as transit systems began purchasing parts as needed rather than for inventory, primarily due to decreases in many customers' operating budgets. However, due to the constant level of aftermarket sales, combined with a contracting market, management believes that New Flyer's parts market share grew from 15% in 2010 to 17% in 2011.

The following tables show the growth in the Company's revenue generated from aftermarket operations since 2007, and management's estimates as to the market share of the Company and certain of its competitors in the aftermarket parts industry for 2011.

2011 Revenue from Aftermarket Operations
($ in millions)



2011 Aftermarket Market Share



Source: New Flyer management.

Publications

The publications team produces a wide range of parts, maintenance and operational documentation, tailored to the needs of each of the Company's customers. Focusing on content accuracy and user-friendliness, a variety of documents are published in hard copy or electronic format. New Flyer's "Transit Information Viewer", a CD-ROM containing all information unique to each bus purchased by a customer, was introduced in the mid-1990s and is a product feature that has set the standard for customer specifications in the industry.

New Flyer's production of customer-specific maintenance information remains the standard within the industry. New technologies (such as PLM) are being developed and implemented to provide this information in new formats and through new media that will further benefit and provide the customer with accurate and up-to-date information to maintain the customer's buses throughout their life cycle.

Service Support

The customer service team is responsible for product acceptance, field support, field engineering and warranty management. New Flyer has a relatively high density of service representatives per bus in the field, ensuring a timely and complete response to each customer request throughout the operating life of a bus.

New Flyer uses iWarranty, a web-based electronic warranty claim, administration and campaign management system. The online system provides many features to the customer to submit, manage and monitor their warranty claims submitted to the Company. Since its implementation in 2009, the iWarranty system has improved customer response times and provides the Company with greater visibility in the areas of product reliability and safety, warranty campaign planning and management. This system has received tremendous acceptance by New Flyer's customers and virtually all customers with existing base warranties for their buses, are on-line and are actively using the iWarranty system.

The Company opened a service centre in Arnprior, Ontario at the beginning of 2010 to provide bus warranty, technical and integrated supply chain services for the buses operated by the City of Ottawa.

Product Training

Operator and maintenance training is provided to the Company's customers as part of a transit bus purchase contract or separately as an aftermarket service. The New Flyer Institute, the name given to the Company's training and education function provides training to customers and employees. See "Description of the Business – People and Labour Relations – "A Great Place to Work" and New Flyer Institute".

In certain circumstances training will also be subcontracted to third party service providers and managed by the Company. Training aids and tools are specifically developed and provided as required, and refresher courses are provided as part of the overall bus life cycle support strategy.

E-Learning

New Flyer, through the New Flyer Institute, offers internet-based training modules, or e-learning, to its customers using a web hosted learning management system ("LMS") that stores and provides courses and maintains the training records of the students. This technology allows students to be trained using consistent course content and delivery methods. In addition, courses are taken on an individual basis and on a schedule that fits the student's needs. Course offerings can include topics ranging from bus maintenance to driver self defence training. See "Description of the Business – People and Labour Relations – "A Great Place to Work" and New Flyer Institute".

New Flyer Connect

The New Flyer Connect system is an on-board telematic system that includes a modem, GPS unit and a driver interface. The system permits real-time monitoring of the driver and vehicle performance on an individual bus basis and on a fleet-wide basis. Connect integrates this data and provides monitoring and prognostic performance information to the customer. This information in turn can be used to improve driver safety, improve driving efficiency, save fuel, predict maintenance events and to assist in preventing catastrophic maintenance events. The Connect reporting system is web-based, with each on-board system uploading data in real time from the bus to a hosted web-based software platform. The software which houses the data, generates notifications based on exceptions and generates reports that can be accessed through any internet portal.

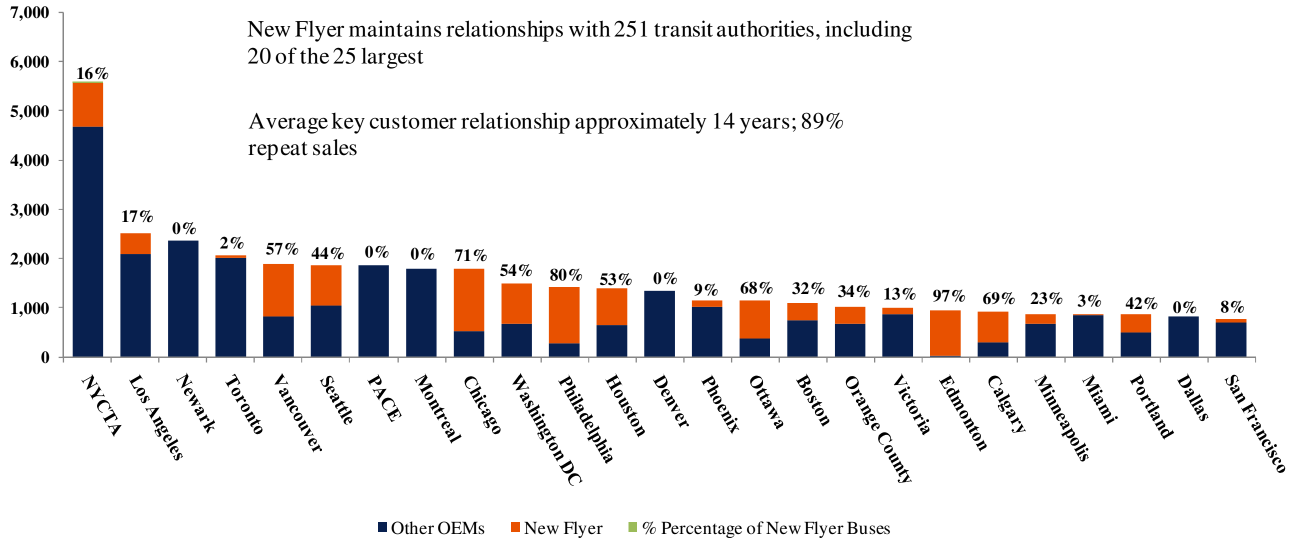
Customers

New Flyer's principal customers are municipal and other local transit authorities in the United States and Canada that provide mass transit to local communities. While the Company's top ten customers typically account for 50% to 75% of its bus manufacturing revenue in a given year, the large contract procurements undertaken by many municipalities every few years generally creates a new customer base for the Company each year. Since 2009, the Company has entered into contracts with 31 customers it had not previously served. Nonetheless, given the Company's broad and high quality product offering and comprehensive aftermarket parts and service capabilities, New Flyer enjoys significant repeat business from its customer base. Over the last five years, approximately 91% of the Company's annual bus manufacturing revenue has been derived from repeat customers that have purchased buses from the Company during each respective prior five-year period.

Twenty out of the 25 largest transit authorities in the United States and Canada (based on the number of buses in service in 2011), operate New Flyer buses. The Company had active business relationships (which include the sale of parts) with approximately 251 transit authorities in Canada and the United States. The Company estimates that these 251 transit authorities operated approximately 85% of the total heavy-duty transit buses in Canada and the United States in 2011. The average tenure of the Company's relationships with its ten largest customers over the last five years is approximately 16 years. The Company's leading share of all heavy-duty transit buses currently in service gives it an advantage in bidding for new contracts, as operators are increasingly seeking to standardize fleets to minimize the cost of parts and maintenance.

The following chart shows the top 25 transit authorities in the United States and Canada in 2011.

25 Largest Transit Agencies in the United States and Canada



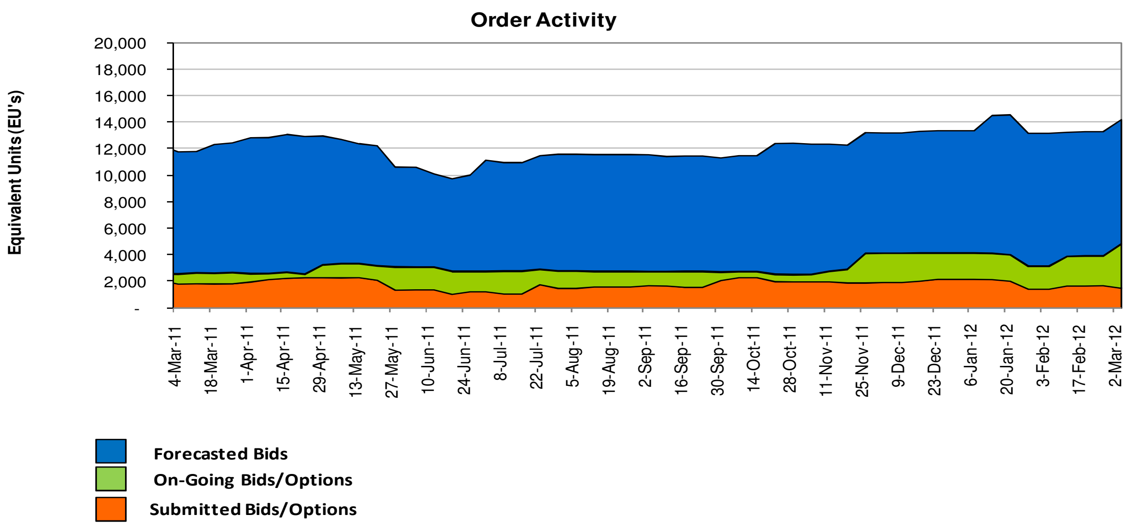
Sources: Metro Magazine, 2011 and New Flyer management.
Notes: Customers may also operate other manufacturer's buses in their fleets.

Forward Visibility of Orders and Backlog

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

Many purchase contracts also include options to purchase additional buses in the future. These purchase options are typically exercisable over a period of three to five years and are often transferable to other transit authorities. In the United States, the options are approved for federal funding at the time that the original contract is signed, and when options are exercised or assigned by one transit agency to another transit agency to exercise there is no need to re-apply for federal funding. In addition, the approved federal funding is generally transferable together with the options to other United States transit authorities, provided that the transferee of the options meets the minimum federal criteria for funding. Transit authorities are increasingly adding options to their contracts in order to provide flexibility shorten the buying cycle and reduce administrative costs. The assignment of options is however limited by Federal Transit Administration ("FTA") rules such that an option is applicable to a specific bus length and fuel type. Minor changes to the bus specification under an option may be made by the assignee agency, but "cardinal" changes are not permitted by the FTA. Given the increasing importance of options to its customer base and the significant source of potential orders that options represent, New Flyer both actively seeks to grow its option backlog and encourages customers to exercise existing options.

Management tracks the "pipeline" or "bid universe" of anticipated order and production activity within a five-year horizon. This includes forecasted orders, active bids and active option quotations to be submitted, and pending bid awards and option orders. While the pipeline has remained relatively stable over the past several years, it largely reflects the cumulative anticipated needs of the universe of transit bus customers, rather than funded opportunities. As at January 1, 2012, Management estimates there were approximately 13,800 equivalent units in New Flyer's current pipeline for heavy-duty transit buses. The pipeline is expected to remain volatile as customers manage through fleet replacement planning and deal with funding and budget uncertainties. As a result, management expects further price pressure on future business in the near and medium terms. Management is not able to predict at this stage how many bids will result in awarded orders nor how many options will be exercised to form firm orders.

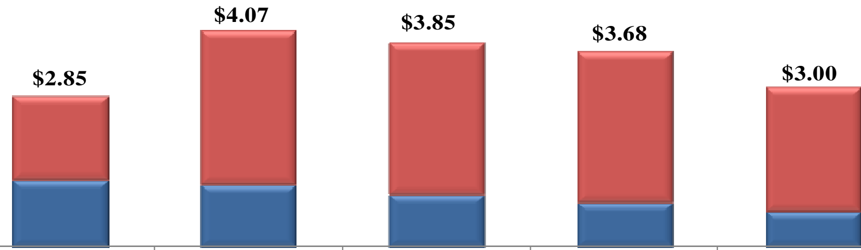


Source: New Flyer Management

The Company's total backlog, which includes buses to be manufactured in 2012 and future years, was 7,097 equivalent units (representing approximately $3.1 billion of revenue, including approximately $658 million in firm orders and approximately $2.34 billion in options). Although historically such options have represented a significant source of revenue for the Company, there can be no assurance that customers will continue to exercise or assign these options in the future. Some of the available options are unable to be assigned to third-party agencies because of local procurement rules, and some options are unlikely to ever be exercised because they represent models that are not widely used in the industry. In addition, some agencies secure options based on specific growth and replacement plans which may or may not crystallize. For these reasons, in some cases options are neither exercised nor assigned to third parties, but are simply allowed to expire by the transit agency. Further, given the current economic environment and uncertainty around state and local government funding, management believes that option conversion rates may be lower than in previous years. See also, "Risk Factors — Risks Related to the Business of the Company — Absence of fixed term customer contracts and customer termination for convenience".

The following chart shows the dollar value of the Company’s firm order and option backlog as at the end of each year from 2007 through 2011.

Value of Firm Orders & Options
($ in billions)



	2007	2008	2009	2010	2011
Options	$1.600	$2.917	$2.870	$2.845	$2.344
Firm	$1.246	$1.155	$0.978	$0.833	$0.658

Firm Options

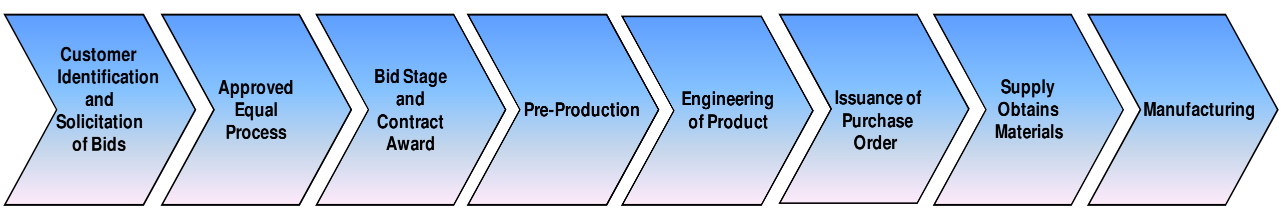
Sales and Marketing

New Flyer sells and markets its products primarily through its experienced internal sales force comprised of 13 sales and marketing representatives and five field sales representatives with geographic coverage responsibilities in the United States and Canada. The Company’s executive leadership team is also responsible for developing and maintaining relationships with key contacts at certain of the Company’s major customers. The Company has also entered into distribution or dealer agreements with certain parties to sell buses to customers to whom New Flyer traditionally does not sell buses.

Sales resources are directed on the basis of a customer priority rating determined by a variety of criteria including bid type (low bid or negotiated), size, multi-year procurement opportunities, aftermarket opportunities and complexity relative to volume.

New Flyer’s sales and pre-production process consists of the following distinct steps which are described below.

Sales and Pre-Production Process



Customer Identification and Solicitation of Bids

New Flyer maintains a database of North America transit agencies and the approximate age of all of the agencies' buses. New Flyer uses this data base to identify potential customer opportunities. New Flyer also identifies potential opportunities in each of the following ways:

(i) Through its sales force and network of industry contacts, the Company works with its customers to understand their capital spending plans. Through these efforts New Flyer is able to identify municipalities that are planning to upgrade their bus fleets or have vehicles approaching the minimum bus life hurdles (12 years or 500,000 miles) for United States federal funding of replacements.

(ii) Ongoing dialogue with existing customers, enhanced by a service or support relationship, assists in identifying opportunities for new business. Over the last five years, approximately 90% of buses produced by the Company were for customers who had purchased buses from the Company in the preceding five years.

(iii) New Flyer assists customers in having options of other transit agencies assigned to them. Some United States customers seek to add new buses to their fleets without starting a new solicitation process and without applying for United States federal funding (provided that the transferee of the options meets the minimum U.S. federal criteria for funding) and can "piggyback" off an existing customer contract.

Approved Equal Process

A customer will generally provide a detailed specification of its requirements to New Flyer and competing manufacturers. The manufacturers will enter into a non-binding negotiation process with the customer known as the Approved Equal Process. Customer specifications are very detailed and specific, and will include interior and exterior colour schemes, seat selection and electronic components as well as type and length of bus and fuel and propulsion systems required. While customization is present in most buses, not all customer requests can be economically or technically met within the constraints of the core design. Manufacturers will submit an explanation of the differences between the customer's specification and the manufacturer's proposal, detailing the benefits of alternative components offered. Over a four to six-week period, the manufacturers and customer will negotiate adjustments to the specifications and the commercial terms or agree to amendments to or waivers of specific requirements. Both the RFP and IFB solicitation processes described below follow the Approved Equal Process.

Bid Stage and Contract Award

There are two types of solicitation processes that municipalities use to purchase buses. An IFB (or "low bid") requires manufacturers to submit a bid and the contract is awarded to the lowest priced bidder who has met the bid specifications. The second type of solicitation is the RFP (or Request for Proposal) process in which manufacturers submit proposals that address specific criteria for evaluation such as past history, financial capability, quality, reliability, maintenance, aftermarket parts and service and price. Bids are negotiated on the basis of all the relevant criteria, which allows manufacturers to win contracts on factors other than price alone.

During 2009, 2010 and 2011, management estimates that approximately 78% of new bus procurements awarded to New Flyer are the result of bids awarded through the RFP process. Management believes that the industry as a whole continues to migrate towards the RFP solicitation process, with approximately 84% of procurements being issued through the RFP process in 2011. Management believes that customers have increasingly come to prefer the RFP process because it enables them to factor the lifetime cost of the bus into their purchase decision, taking into account maintenance costs, aftermarket support and warranties and fleet standardization objectives, rather than merely the initial capital purchase cost. Management however, has noticed a trend among customers utilizing the RFP process that although bids are being evaluated on many of the factors described above, customers still place a significant emphasis on price.

In preparing its bid, New Flyer will cost most elements of the product, factoring in component and conversion costs and production slot availability and targeting a minimum dollar contribution to margins. The Company seeks to obtain cost and delivery commitments from suppliers for major components and systems in order to lock in as much of the cost as possible.

Issuance of Purchase Order

Once a bid has been awarded, there is usually a one-month period of documentation negotiation prior to a purchase order being issued by the customer. In the case of most United States customers, a purchase order is issued once all required funding is arranged, a "Buy America" audit is complete and applicable insurance and bonding are in place. See "Legal and Regulatory Matters — Rules of Origin (Buy-America) Legislation".

Pre-Production

Once a bus contract is signed, New Flyer initiates the pre-production process that ideally begins between seven and eight months prior to production of a bus. The project is transferred to the customer program department where the contract is assigned to a dedicated customer program manager who is responsible for establishing and managing the project. Over the course of the pre-production period, New Flyer and the customer review the specifications in the contract to confirm their mutual understanding and expectations. The customer is also asked to agree in advance to the quality standards against which the bus will be inspected. Typically, this process yields changes to the original specifications, which is permitted at the customer's expense. The contracts also typically permit customers to independently make changes at their own expense. Changes are logged in a document known as the Master Resolution List ("MRL"), which is approved by the customer prior to commencement of production. The MRL, along with the technical summary (which is a running log of the original specifications), will follow the bus order through the production line to ensure strict adherence to the final specifications. The sale process culminates with a final inspection and acceptance by the customer. The customer generally sends a representative to New Flyer's facilities to inspect and test the vehicles before taking delivery. Third party drivers then deliver the buses to customers and customers are then given a final opportunity to inspect and accept the vehicle. Payment terms are typically either net 30 days from final acceptance or, in a few situations, progress payments based upon completion of key milestones.

Some contracts have holdbacks (of up to approximately 10% of the total contract price) over a 45 to 60 day (or longer) period following acceptance to ensure that any minor deficiencies are corrected. New Flyer has also entered into holdback agreements with some of its customers in lieu of providing warranty bonds. From time to time, customers hold back more than they are entitled to under contract. In such cases, the holdback typically is in the amount of the expected warranty provision, less any extended warranties purchased, for the warranty period. The customer can then charge any warranty claims against the holdback account once such claims are approved by the Company. Any money remaining from the holdback is returned to the Company. Warranty holdback periods generally last for one to two years.

Facilities and Manufacturing Process

Facilities

New Flyer's production facilities are well-equipped. Over the last few years the Company's facilities have been significantly upgraded in terms of safety systems, paint, lighting (especially on the production floor) and the removal of waste and scrap.

In furtherance of its vision of "Operational Excellence" the Company rationalized its Winnipeg real estate footprint by bringing the Publications department into its Parts facility and by reducing excess leased production space.

The Company's manufacturing facilities in Winnipeg, Manitoba and St. Cloud and Crookston, Minnesota have each been registered to the ISO 9001 (quality), ISO 14001 (environmental) and OHSAS 18001 (safety) certifications[1]. The Company has been recognized for outstanding occupational health and safety management.

The following table provides details of New Flyer's facilities:

Location	Function	Established	Approximate Size (Sq. ft.)	Ownership	Lease Expiration
Winnipeg, Manitoba					
Manufacturing Facility	administration, sub-assembly, structure weld, shell assembly and paint support services	1973 (expanded 1998)	364,000	Owned	N/A
Distribution Center	aftermarket parts	1998	52,000	Leased	2013
Development Facility	new product development	1992	12,000	Leased	2012
St. Cloud, Minnesota					
Manufacturing Facility	structure weld, shell assembly, paint, final assembly and customer inspection/acceptance	1999	338,000	Leased	2024
Crookston, Minnesota					
Manufacturing Facility	final assembly	1996 (expanded 1998)	89,000	Owned	N/A
Customer Acceptance	customer inspection/acceptance	1998	27,000	Owned	N/A
Erlanger, Kentucky					
Distribution Center	parts distribution center	2008	43,000	Leased	2013
Fresno, California					
Distribution Center	parts distribution center	2009	32,000	Leased	2014
Brampton, Ontario					
Distribution Center	parts distribution center	2011	32,000	Leased	2014
Arnprior, Ontario					
Service Center	warranty support and parts distribution	2010	26,000	Leased	2012
Elkhart, Indiana					
TCB's facilities	parts fabrication	2010	24,000	Leased	2013

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[1] ISO 9001 (Quality), ISO 14001 (Environmental) and OHSAS 18001 (Health & Safety) certifications confirm that New Flyer's management system has been assessed by accredited bodies, which found the Quality, Environmental, and Health & Safety components of the system to be in conformance with applicable standards.

Manufacturing Process

The manufacturing planning process begins at the time of the initial bid, well in advance of actual fabrication or assembly. During this period the supply chain is managed such that when the unit enters the production line, all necessary materials and components are delivered direct to the point of use on the production line to allow for timely assembly. Generally, the Company manufactures its buses, from frame welding to final assembly, in approximately five weeks.

The Winnipeg production facility operates two production lines with a number of off-line electronic component and small parts assembly stations and a pre-production fabricating group that creates materials for assembly on the production line. In Winnipeg, a bus goes through the structure weld, shell assembly and painting phases of production. The partially completed shell may then be shipped to Crookston (and sometimes St. Cloud) for final assembly.

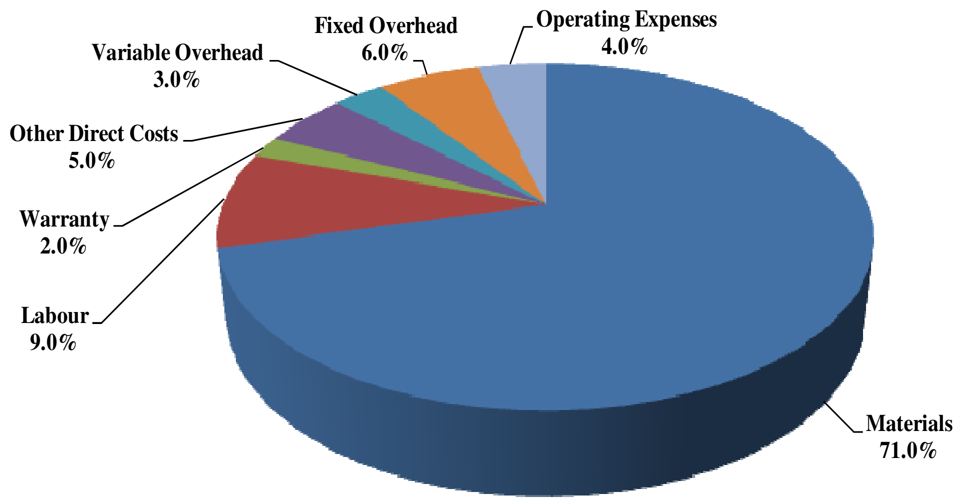
The Crookston production facility is a final assembly plant. Running two identical production lines in parallel, the facility completes the bus shells delivered from the Winnipeg facilities and tests the finished products. In order to facilitate compliance with "Buy America" legislation, New Flyer installs most major components such as the engine, axles, transmission, driver and passenger seating and air conditioning systems at the Crookston facility. In addition, the Crookston production facility has specialized ventilation equipment required to commission CNG-powered buses.

Constructed in 1999, the St. Cloud production facility produces a complete bus from frame welding to final assembly. In 2011, specialized ventilation equipment was installed in the St. Cloud facility in order to build CNG-powered buses to accommodate operational flexibility and to address the increasing demand for CNG buses.

The Company currently has a heavy-duty transit bus production capacity of approximately 2,000 to 3,000 equivalent units per year based on both engineering capacity and production capacity. New Flyer generally runs one to two shifts per day, five days a week at each of its four facilities. See "Risk Factors — Risks Related to the Business of the Company — The Company may not be able to successfully renegotiate collective bargaining agreements when they expire and may be adversely affected by labour disruptions and shortages of labour".

Due to the assembly nature of the Company's manufacturing process and the high cost of the major components incorporated into buses, approximately 90% of the total cost structure of its bus manufacturing operations is variable, based on the Company's 2011 financial results. This provides the Company with the ongoing ability to control costs to match production levels. The following chart provides a breakdown of New Flyer's cost structure for bus manufacturing operations:

Cost Structure: 2011 Bus Manufacturing Operations



Quality Organization and Principles

One key element of Operational Excellence strategy is quality. New Flyer's Quality organization is responsible for quality at all of the Company's facilities. The Company continues to implement the multi-year Quality Roadmap developed in 2010 that targets a series of systemic improvements to improve quality. The Company has implemented the systematic use of product quality standards, its version of Advanced Product Quality Planning and "Live QA" (an online quality management system) to promote a proactive quality system. New Flyer has standardized the various tests and inspections conducted throughout its manufacturing process to ensure product quality consistency between facilities.

The Company has documented the key elements of its quality system on a "Customer Quality" compact disc which is provided to customers during the pre-production process. The quality organization works with the Customer Program Management team to ensure customers understand the quality standards described on the CD prior to the production build. This ensures that there is alignment regarding expected quality standards between New Flyer and the customer prior to their bus being built.

"Live QA" is an online dynamic quality management system. Live QA permits the Company to define an inspection plan based on the pre-build advanced quality planning. During the production build, the inspection plan is adjusted to ensure areas of the bus that require further in-depth inspection receive it and areas that don't require as much inspection are scaled back. The traceability of information that is provided by Live Bus and Live QA promotes the notification of product defects to the appropriate supplier. Live QA also provides information regarding opportunities for systemic improvements to the production process.

Product Warranty and other Contractual Provisions

For all United States federally funded contracts, the FTA stipulates certain warranty levels for the bus, structure and major subsystems. Transit agencies will often request additional coverage as part of the initial capital purchase to minimize their operational costs. New Flyer prices extended warranty costs into its bids.

Extended warranties for major subsystems such as engines, transmissions, axles and air conditioning are normally purchased for the customer from the component supplier. For certain other extended warranties, including those covering brake systems, lower level components, fleet defect provisions and engine-related components, New Flyer is responsible for warranty costs during a warranty period of approximately one to five years, depending on the contract.

Under the fleet defect provisions included in some bus purchase contracts, New Flyer is required to repair the entire fleet of buses delivered under the contract if the same defect occurs in more than a specified percentage of the fleet (typically 10% to 20%) within the initial twelve-month period following delivery of the bus. New Flyer also frequently provides a parts supply guarantee in its bus purchase contracts, under which the Company guarantees that bus parts will be available to the customer for a certain period of time, usually 15 years following delivery of the bus. The Company generally provides its customers with a one-year base warranty on the entire bus and a 12-year corrosion warranty on the bus structure. New Flyer also builds an estimate of these costs into each of its contracts based on the Company's historical experience and technical expectations. For bus purchase contracts entered into over the last five years, the Company's aggregate warranty costs have, on average, not materially exceeded the aggregate of the amounts incorporated into the pricing of the applicable contracts and management believes that the Company's current policy for reserving for warranty obligations is appropriate and conforms to the Company's current warranty spending levels. See "Risk Factors — Risks Related to the Business of the Company — The Company may incur material losses and costs as a result of product warranty claims".

New Flyer uses iWarranty, an industry-leading electronic online warranty claim and campaign management system that allows customers to manage and monitor their submitted warranty claims. It also provides the Company with greater visibility in the areas of product reliability, safety and warranty campaign management.

Bus manufacturing contracts typically include liquidated damages provisions, which result in fines on a per bus per day basis when buses are not delivered to the customer by the deadline specified in the contract. The Company actively manages these terms with its customers in the event of specification changes that impact production timing. The Company does not expect to incur material liquidated damages penalties in the normal course of its operations and liquidated damages incurred by the Company in fiscal 2011 were not material. See "Risk Factors — Risks Related to the Business of the Company — Production delays may result in liquidated damages under the Company's contracts with its customers".

In addition, bus purchase contracts in the heavy-duty transit bus industry typically include a right of transit authorities to terminate the contract for convenience. As such, the Company's customers may, with notice, terminate their relationships with the Company during the term of a contract. See "Risk Factors — Risks Related to the Business of the Company — Absence of fixed term customer contracts and customer termination for convenience".

Bonding Requirements

Many municipalities and transit authorities require suppliers to obtain performance bonds from surety companies or letters of credit to protect against non-performance by suppliers. Approximately 26% of New Flyer's contracts require performance guarantees, with an average guarantee rate of approximately 10% of the value of the contract. Management believes that the Company's current surety capacity is sufficient to meet its surety requirements.

Performance guarantees are generally valid from contract award to completion of the contract. Contract completion is generally defined as customer acceptance of all buses in a given contract and generally excludes warranty obligations. Contracts can stipulate single or multi-year procurements, and performance guarantee requirements are structured accordingly. Where contracts include options to acquire additional buses, performance bonds are issued as the options are exercised.

The surety bonding market does not provide for committed bonding facilities. Surety companies provide limits on the maximum coverage they will provide. Surety companies issue bonds on an as-needed basis and take into account current financial performance and the state of the surety market in making their credit decisions. The Company currently has sufficient capacity to meet the performance guarantee needs of its business through both its arrangements with its primary surety provider and its letter of credit facility. See "Risk Factors — Risks Related to the Business of the Company — The Company may not be able to maintain performance bonds or letters of credit required by its contracts".

Materials and Suppliers for Production

Materials represented 71% of the cost structure of the Company's bus manufacturing operations in 2011. The Company has long-standing relationships with a diverse group of established suppliers and generally has a number of sources of supply for most of its raw materials and components. For several major bus components however, supply is dependent upon a single supplier in order to meet the customer specifications within a contract. In addition, for certain components such as engines, the Company, and the other manufacturers in the heavy-duty transit industry, are dependent on a single source of supply that is certified to industry requirements and standards. New Flyer has established strategic relationships with its suppliers and actively monitors and manages the risks associated with supply continuity. Management believes the Company can continue to leverage these relationships through its market leadership position. See "Risk Factors — Dependence on limited sources of supply".

The Company typically attempts to negotiate fixed price contracts on either an annual or multi-year basis with most of its suppliers. Additionally, the Company will negotiate fixed prices and contractual requirements for the supply of special customer specified materials and parts at the time of the bid. See "Risk Factors — Risks Related to the Business of the Company — The Company's profitability can be adversely affected by increases in raw material and component costs".

New Flyer has implemented world-class lean processes to plan and deliver material requirements to its production lines. Suppliers receive and process orders electronically using an internet web portal utilizing Oracle iSupplier technology. This efficient and effective communication tool permits suppliers to directly access material requirements, accept and manage purchase orders, process shipments, enter invoices directly, and manage delivery schedules in a real-time system that is available 24 hours a day, 7 days a week. As at the end of 2011, management estimates that 95% of incoming shipments are being managed and processed through iSupplier. The Company also maximizes the use of shop floor Kanban and pull systems, utilizes just-in-time delivery on major components, and manages all in-bound logistics from each supplier's dock in order to deliver all material requirements direct to the point of use on the production line, without the need for warehousing. The Company closely monitors and reports to suppliers in respect of their monthly performance and distributes supplier performance awards on an annual basis.

Capital Expenditures

Due to the assembly nature of the Company's manufacturing process, production requires limited specialty tooling, machinery and equipment. As a result, the Company generally has predictable ongoing capital expenditure requirements related to its assembly operations, primarily limited to maintenance or replacement expenditures. Capital expenditure requirements for new tooling, machinery and equipment may also fluctuate from period to period depending on the Company's requirements for in-house fabrication and manufacturing of parts instead of outsourcing them from third parties. Management will also consider capital expenditures where it provides an opportunity to enhance the Company's EBITDA.

The table below shows the amount and components of New Flyer's capital expenditures since 2007.

	2007	2008	2009	2010	2011
Land and Building	$0.1	$1.7	$1.0	$0.9	$1.2
Machinery, Equipment & Tooling	3.4	4.9	5.9	3.6	4.9
Computer, Hardware & Office Equipment	1.8	1.3	2.2	2.0	1.7
Demonstrator Buses	0.7	0.5	0.7	1.2	0.9
Total Capital Expenditures	6.0	8.4	9.8	7.7	8.7
Less Capital Expenditures funded by capital leases and term loan	(3.2)	(1.6)	(4.2)	(0.5)	(5.0)
Less Capital Expenditures funded by investment tax credits	0.0	0.0	0.0	0.0	0.0
Cash Capital Expenditures	$2.8	$6.8	$5.6	$7.2	$3.7
Comprised of:					
Maintenance Capital Expenditures	$1.9	$2.5	$2.6	$3.3	$2.0
Growth Capital Expenditures	0.9	4.3	3.0	3.9	5.7
	$2.8	$6.8	$5.6	$7.2	$7.7

With a heavy-duty transit bus production capacity of approximately 2,000 to 3,000 equivalent units per year (based on both engineering capacity and production capacity), compared to 2011 deliveries of 1,811 equivalent units, and with well-equipped facilities, New Flyer is positioned to expand its current production with limited additional significant capital expenditure requirements.

In 2011, the Company incurred capital expenditures of $6.6 million related to investments for new tooling to support expanded product lines, expand investment in its information technology and for facility transformation to support its Operational Excellence initiatives. The Company financed approximately $4.0 million of these capital expenditures through borrowings and funded the balance of the expenditures from operating cash flows.

People and Labour Relations

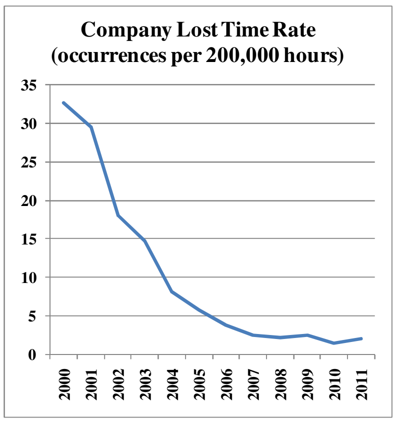
As of January 1, 2012, the Company had a total of approximately 2,200 employees, of which approximately 1,500 were paid hourly and approximately 700 were salaried. The average hourly employee age is approximately 45 years with an average tenure with the Company of approximately 11 years.

The Company was selected by Mediacorp Canada Inc., as one of Manitoba's Top 25 Employers for 2012. The Company was also selected by Mediacorp Canada Inc. as one of the best employers for new Canadians.

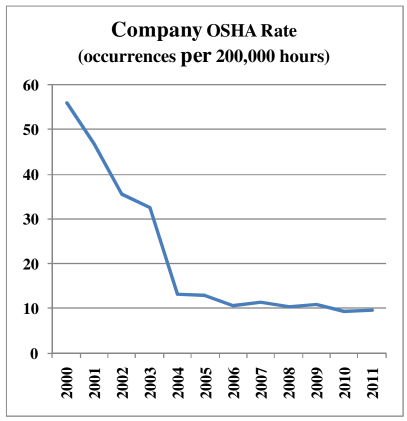
Occupational Health and Safety Management

The Company's focus on occupational health and safety management has resulted in strong and continuous improvements over the past decade. Historical occupational health and safety performance (depicted in the charts below) indicates that the Company's lost time numbers and workers' compensation and occupational health and safety rates have decreased, on average, by 87% since 2000. Management believes that the Company's dedicated commitment to safety improvements is not only a competitive advantage for the organization, but is essential to the creation of a safe working environment for New Flyer's employees and its operations.

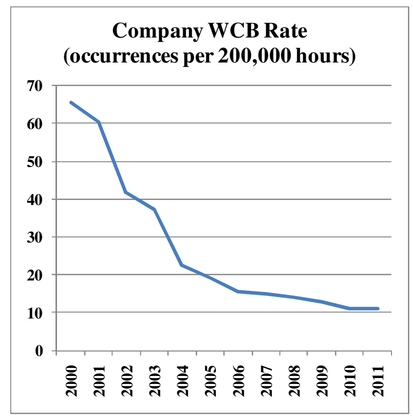
New Flyer Safety Trend History



Missed time from work:
Definition of Lost Time Injuries: The injury caused absence from work. Time spent obtaining medical treatment is not defined as "lost-time." - OSHA



Required modified duties:
Definition of OSHA Recordable Accidents: Cannot perform all of his or her normal job duties, defined as any duty he or she would be expected to do throughout the calendar year or cannot work a full shift. - OHSA



Went to see a doctor:
Definition of WCB Accident: Injuries or illnesses are work related if an event or exposure in the work environment either caused or contributed to the resulting condition or significantly aggravated a pre-existing injury or illness. It must also be something that the worker is not equally exposed to outside the workplace. - OSHA

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Source: Company's reporting to Occupational Health and Safety Act and Workers' Compensation Board agencies.

"A Great Place to Work" and New Flyer Institute

"A Great Place to Work" is one of New Flyer's core operating principles, and is an approach that the Company strives to embody in all of its work environments. In order to fully support the Company's commitment to this strategy, the Company has expanded its corporate training function and has devleoped a robust training framework that will enable it to meet the needs of all of its employees. This training and education function has been named the "New Flyer Institute". Access to increased training and skills development, which is strongly aligned with the needs of all employees, is critical to the success of the Company's customer service, Operational Excellence and supplier-partnership principles. The Company is also focusing on leadership and management development of all of its employees with managerial responsibilities. As the Company expands its capabilities and increases its product and service offerings to achieve its key strategic objectives, the Company will continue to identify, develop and enhance its employees' training and education requirements. Management believes that the New Flyer Institute will enable and empower New Flyer's employees, and develop its current and future leaders to differentiate the Company and lead it to sustaining a competitive advantage.

iBus and Enhanced Employee Communication

New Flyer has continued to enhance its innovative employee communication tool called "iBus" and has implemented additional features to improve employee communication. iBus, which stands for "Internal Business User Site", provides employees with one-stop access to essential business links and important Company information. Information kiosks have been installed at all of New Flyer's facilities. Employees are also greeted by the iBus home page every time they open their personal work computer internet browsers or visit one of the shop floor information kiosks. iBus is part of the Company's overall approach to consistent and strong communications which management believes is essential in fostering a culture of teamwork, engagement and positive employee relations. New Flyer has also implemented another innovative communication tool called People TV. People TV was introduced to augment the employee communication framework through the use of creative video presentations, assisting to further align employees with the Company's operating principles, core values and culture.

Employee Engagement and Culture

New Flyer has conducted comprehensive employee surveys in order to provide all employees with an opportunity to present feedback on their jobs, work environment and views of the Company. Management believes that this information is essential to improving business performance and is a critical enabler to the "Great Place to Work" strategy. Employees from across New Flyer have embraced the opportunity to provide feedback and, similar to the original survey conducted in 2010, an incredible 84% of employees responded to an internal follow-up survey conducted in 2011. The results of the follow-up survey were positive and all survey categories showed improved employee engagement over the responses received in 2010.

The Company maintains social committee chapters at all Company's locations to promote and encourage leadership and employee participation in Company-sponsored events and to advance the development of an inclusive and team-oriented culture. Winter holiday parties are held for all employees at all of New Flyer's facilities. Management believes this is also fundamental to the "Great Place to Work" strategy and will contribute to New Flyer's competitive advantage.

Terms of Long-Term Collective Bargaining Agreements

Location	Union	Approximate Number of Unionized Employees	Term of Collective Agreements
Winnipeg	CAW — Local 3003, (Production Unit)	680	April 1, 2009 to March 31, 2012
	CAW — Local 3003, (Inspection Unit)	20	April 1, 2009 to March 31, 2012
Crookston	Communication Workers of America — AFL-CIO, CLC District 7	259	January 1, 2011 to December 31, 2015
St. Cloud	Communication Workers of America — AFL-CIO, CLC District 7	432	April 1, 2008 to March 31, 2013

The collective bargaining agreements between the Company and each of the unions representing the production unit employees and the inspection unit employees at the Company's Winnipeg facility expires on March 31, 2012. The Company and the union leadership representing these two bargaining units are currently negotiating a new collective agreement.

Pensions

Union employees working at the Winnipeg facility are participants in a defined benefit pension plan. As of January 1, 2012, the estimated plan deficit was approximately $9.1 million. Salaried employees at the Winnipeg facility participate in a defined contribution plan in which employees are required to contribute 3% of earnings and the Company matches this contribution.

Employees working at the St. Cloud and Crookston facilities participate in a tax-qualified defined contribution 401(K) plan to which participants may defer their eligible compensation as employee pre-tax elective deferral contributions and to which the Company may make discretionary matching contributions based upon a percentage of a participant's pre-tax elective deferral contributions.

Competition

Price, engineering to customer specification, product quality, on-time delivery, established track record, strong customer relationships and financial strength are key factors in winning manufacturing contracts in the heavy-duty transit bus industry. The competitive landscape of the industry in the United States and Canada is limited to five major competitors including New Flyer, Gillig Corporation, North American Bus Industries ("NABI"), Orion Bus Industries and Nova Bus. Gillig Corporation is privately owned. NABI is also privately owned by Cerberus Capital Management, L.P. Orion Bus Industries has been owned by Daimler Trucks North America since 2000 and Nova Bus has been owned by Volvo Truck and Bus since 2004.

The recent US recession, from which the country is slowly recovering, has had a delayed impact on the transit industry as local tax revenues fell dramatically and budgets for many transit agencies were drastically cut in recent years. As a result, many transit agencies have reduced their operations and services by cutting routes and laying off employees, with the effect that buses became idle thereby deferring their replacement. Other agencies have met the funding challenges by reducing planned bus purchases. As a result of these events, management estimates orders from transit agencies in 2011 continued at a level similar to that of 2010, in the range of 10 to 15 percent lower than 2009 levels, thereby greatly increasing competition among manufacturers for the lower demand of buses. Management notes that competition for orders among the major bus manufacturers in 2011 continued to be the most intense in several years with extremely aggressive pricing in response to public tenders as all manufacturers strove to keep their production facilities operating.

DesignLine, a recent entrant into the heavy-duty transit bus market, had provided three buses utilizing a low emission turbine propulsion system to New York City Transit, as a pilot run prior to the sale of 87 option buses. Management believes New York City Transit however has cancelled the order on the basis that the DesignLine buses were inadequate for deep urban service. DesignLine has recently announced that Joe Smith, previously an executive with the New York Metropolitan Transportation Authority, will be its interim chief executive officer. Management believes DesignLine will focus its efforts on a 35' CNG bus for the heavy-duty urban transit market with plans in the future for a 40' variant.

Another new entrant to the United States heavy-duty transit bus industry is Proterra, formerly Mobile Energy Solutions. Proterra's new manufacturing facility is located in South Carolina. Proterra builds 35' zero-emission heavy-duty vehicle systems and transit buses (including hydrogen-electric buses), and has introduced an all-electric bus with a roof-top charging station. Proterra has sold several buses to a few US transit agencies, including Foothill Transit in California.

Chinese bus manufacturers have also shown a recent interest in the industry. BYD Company Limited, a Chinese company in which MidAmerican Energy Holdings Company, a subsidiary of Berkshire Hathway Inc., has invested, opened an office in Los Angeles and is participating in US industry trade shows and conducting demonstrations of its bus. BYD is also conducting a test at LAX for short range shuttle service. Management does not believe BYD has sold any buses to US customers yet.

There are many significant barriers to new entrants, including the need for an established industry track record, a limited number of major customers, the need for significant capital investment and financial stability, the requirement for a sophisticated supply network (which, in the United States includes disadvantaged business enterprises), the requirement for a service and aftermarket parts support structure, United States Buy-America legislation, the Ontario policy regarding Canadian content and environmental, disability access and other regulatory requirements.

In management's estimate, the Company's bus products represented approximately 35% of bus deliveries in the combined United States and Canadian market in 2011. Management believes that New Flyer has held the number one market share position in the combined United States and Canadian heavy-duty transit bus market since 1999 and management expects the Company to maintain this leading position in 2012.

New Flyer differs from its competitors by having the broadest and most diverse product offering in the industry, a strong reputation for quality and innovation and the largest production capacity and by being a leading provider of aftermarket parts and support. As a result, management believes that New Flyer is well positioned to continue to compete successfully and maintain its leading market share in the industry. However, the proliferation of models offered by competitors has increased over the past few years, and this combined with extremely aggressive pricing by manufacturers, has contributed to the more aggressively competitive environment in which New Flyer operates.

Legal and Regulatory Matters

In the United States and Canada, government regulation has had a significant impact upon the heavy-duty transit bus manufacturing industry. These legislative and regulatory requirements continue to affect the structure of the industry, the location of manufacturing facilities, the sourcing of parts and materials and the source of funding for bus purchases. Regulation represents a significant barrier to entry in the industry. A description of each of the major areas of regulation follows.

Funding for New Bus Purchases

Financial support of public transit infrastructure is currently a key priority of governments and public authorities due to the significant population base that is highly dependent on public transportation and the importance of reducing inner city and suburban traffic congestion.

United States

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

Federal funding for public transit in the United States is provided under surface transportation legislation covering highway, rail and marine transport. This legislation is passed in six-year cycles. The most recent legislation that provided funding for public transit expired on September 30, 2009. Congress has kept transportation aid flowing through a series of short-term extensions. The current extension of the legislation expires on June 30, 2012. Republican leaders and the Transportation and Infrastructure Committee are working to bolster support for a modified version of their five year, surface transportation authorization bill. If the U.S. Congress cannot pass a bill by June 30, 2012 another extension of the authorizing law will be required to allow funding of the FTA to continue. The House Ways and Means Committee has proposed to eliminate the use of motor fuel tax revenues for public transportation, revenues that have been dedicated to public transportation for nearly 30 years. The transit industry strongly opposes this proposal and is urging Congress to leave fuel tax revenues untouched.

Operating funds for U.S. transit agencies have also been severely impacted by the recession and have resulted in many transit agencies reducing service, increasing fares, and laying off employees. Others are attempting to off-set budget shortfalls with new revenue streams such as the sale of naming rights for stations and routes, advertising on transit system websites and advertising on buses. While state and local budgets remain challenged, there have been some positive signs recently. According to the Nelson Rockefeller Institute, preliminary data indicates that state tax collections for the third quarter of 2011 increased 7.3% over the previous year. State tax collections include personal income tax and sales tax, both of which have increased for seven quarters, and corporate income taxes have increased for the past five quarters. Overall state tax revenues have recovered to pre-recession levels. Although these budgets are driven by tax revenue, there is a lag before any improved economic activity translates into new bus orders. See “Risk Factors — Risks Related to the Business of the Company — Funding may not continue to be available to the Company’s customers at current levels or at all”.

These state, county, and municipal taxes also comprise the principal source of the “local match” funding required for agencies to qualify for the FTA capital grants discussed previously. In most cases, the FTA provides 80% of the capital cost of buses, and the local municipality must provide the remaining 20%. In the wake of the recent recession, municipal budgets have been under extreme pressure and the ability of many transit agencies to provide the local match funding has been greatly compromised. This has been further aggravated in some cases by cost-saving initiatives to cut back on transit routes and/or service hours, which in some cases has cascaded to the idling of buses and the consequent deferral of their replacement.

Canada

Historically, purchases of new transit buses in Canada have been funded primarily by provincial and municipal governments. Recognizing the infrastructure deficit in Canadian cities and the role transit can play to fight climate change, reduce congestion and increase quality of life, since 2003, successive federal governments have funded transit capital projects. Some cost share funding for public transit projects and new bus purchases has been provided since 2003 by other federal programs such as the Canadian Strategic Infrastructure Fund and the Infrastructure Canada Program. The Canadian federal government also announced in the 2008 budget that the federal Gas Tax Fund became permanent. This fund provides approximately C$2.0 billion per year from 2009 through 2014 to help municipalities improve their infrastructure.

However in Canada, unlike the US, there is no central source of funding for bus procurements. Instead, funding of bus purchases comes from a patchwork of provincial funding, municipal funding, fare box revenue, various federal programs, and other smaller sources. Across Canada the funding approach varies widely from province to province and even from city to city within a single province.

There continue to be significant lobbying efforts by the industry underway to provide longer-term Canadian federal funding for public transit, including new bus purchases and development of alternative fuel technologies.

The Canadian Urban Transportation Association has reported a decrease in average fleet age from 10.8 years in 2002 to 6.6 years in 2010[1]. For the same period, APTA reports that the average fleet age in the US has increased slightly from 7.5 years to 8.0 years[2]. Management believes that other than fleet age statistics, there is no high-level indicator of the health of funding for the industry.

Environmental Legislation

New Flyer is subject to numerous environmental and health and safety laws, including statutes, regulations, bylaws and legal requirements contained in approvals or that arise under common law. These laws relate to the generation, use, handling, storage, transportation and disposal of regulated substances, including hazardous substances, dangerous goods and waste, emissions or discharges into soil, water and air, including noise and odours (which could result in remediation obligations), and occupational health and safety matters, including indoor air quality. These legal requirements vary by location and can arise under federal, provincial, state or municipal laws.

New Flyer believes that it is in substantial compliance with all material environmental and health and safety legal requirements. The Company is not aware of any breach of such requirements or other similar liabilities the resolution of which would have a material adverse effect on the Company and its operations.

The Environmental Protection Agency (the “EPA”) mandates compliance with United States emissions standards for vehicles and Environment Canada mandates such compliance in Canada. The EPA has legislated more stringent emissions standards that will be phased in over a period ending in 2013. Management expects that Cummins Inc., the heavy-duty transit industry’s sole supplier of engines, will be able to successfully design and manufacture engines that comply with the 2013 emission standards on or before the date the new standards are effective. See “Risk Factors – Dependence on supply of engines that comply with EPA emission regulations”.

New Flyer offers a wide variety of propulsion options and is continually developing new propulsion technologies. Several of New Flyer’s competitors have limited their ability to compete in certain procurements through their limited propulsion options.

Rules of Origin (Buy America) Legislation

First introduced in 1984 and modified in 1998, Buy America regulations require that buses meet the following fundamental requirements to be eligible for United States FTA funding: (i) final bus assembly/manufacture must occur within the United States, and (ii) the bus must contain a minimum 60% United States content by cost. New Flyer is compliant with Buy America requirements and the Company’s customers regularly conduct audits to validate such compliance for each bus purchased with federal funds. To date, New Flyer has never failed a Buy America compliance audit.

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[1] CUTA, Canadian Transit Fact Book, 2010

[2] APTA, Public Transportation Fact Book, 2011

In early 2011, a bill was introduced in the United States House of Representatives to strengthen Buy America requirements applicable to, among other things, airports, highways, high-speed rail, trains and transit. The bill, if enacted as then proposed, would require that buses purchased with federal funds contain a minimum of 80% United States content by cost for obligations made between January 1, 2012 to December 31, 2012, increasing to 100% United States content by cost for obligations made after December 31, 2013 (compared to the current 60% requirement). This bill has not been enacted. However, in early 2012 an amendment to a pending transportation reauthorization bill that would increase United States content requirements for heavy-duty transit buses from 60 to 100% over a five-year period was unsuccessfully proposed. The same or similar attempts to amend the transportation reauthorization bill may be renewed. See "Risk Factors – Risks Related to the Business – Current requirements under 'Buy America' legislation may change and/or become more onerous or suppliers' 'Buy America' content may change".

United States Content Bidding Preference

In late 2011, legislation was passed in the State of California that permits agencies in the State to grant bidding preference to a bidder if the buses it is proposing exceed the minimum US content requirements under the United States federal "Buy America" regulations. As there has been no contract yet awarded under this new legislation, management does not know what impact this legislation will have on the Company's ability to win procurements by California agencies employing such bid preference rules. There is no publicly available data regarding the US content of competitor's buses compared to buses sold by New Flyer. See "Risk Factors – Risks Related to the Business – United States content bidding preference rules may create a competitive disadvantage.

Ontario Policy Regarding Canadian Content

The Ontario provincial government has implemented a policy requiring that all transit vehicles procured by Ontario municipalities using sources of provincial funding must contain a minimum 25% Canadian content by cost. Management believes that the Company complies with these policy requirements. See "Risk Factors – Risks Related to the Business - Current requirements under the Ontario government's or Canadian transit agencies', Canadian content policy may change and become more onerous".

Policy of the Toronto Transit Commission

In December, 2009, the Toronto Transit Commission (the "TTC") passed a policy requiring that 50% of the assembly labour costs for new public transit buses purchased by the TTC comprise Canadian labour. In addition, the TTC policy requires that a new forty-foot standard diesel bus contain a minimum of 40% Canadian content by cost. Although New Flyer is not currently building buses for the TTC and has no contract to build buses for the TTC in the future, management believes that the Company would comply with these policy requirements.

Disadvantaged Business Enterprises

In accordance with United States Department of Transportation regulations, "Participation by Disadvantaged Business Enterprises in Department of Transportation Financial Assistance Programs", the FTA reviews and approves bus manufacturers' annual goals for supporting qualified disadvantaged business enterprises (as defined in the regulations). Compliance by manufacturers with these disadvantaged business enterprises regulations is required in order to be eligible to build buses for transit agencies that use FTA funding. The Company's annual goals, for previous years in respect of disadvantaged business enterprises have been approved by the FTA and the goals for 2012 are currently being reviewed for approval by the FTA.

Motor Vehicle Safety Standards

All buses sold in the United States and Canada must comply with federal, state and provincial motor vehicle safety standards. In both the United States and Canada, vehicles that meet or exceed all federally mandated safety standards are certified under the federal regulations. Rigorous testing and the use of approved materials and equipment are among the requirements for achieving federal certification. New Flyer's entire product offering has been certified under applicable federal standards in both the United States and Canada and the Company certifies each new bus model before its market launch. New Flyer agrees to comply with state and provincial motor vehicle safety regulations in its customer contracts. The Company has an office dedicated to product safety and compliance regulations, and management believes that the Company is in material compliance with all current federal, state and provincial motor vehicle safety regulations. The Company is currently not aware of any limitations as to where its buses can operate in the United States and Canada.

Motor Vehicle Road Use Standards

Transit bus operators are subject to federal, state and/or provincial motor vehicle road use regulations. Although it is the responsibility of the transit bus operator to comply with such regulations, New Flyer is required to comply with applicable federal, provincial and state regulatory requirements under its customer contracts. New Flyer must also comply with regulatory requirements whenever it drives its buses over the roadways from its facilities to its customers. Management believes that the Company's buses are in material compliance with such motor vehicle regulations. However, there are some heavy-duty transit buses in the industry, including certain types of buses manufactured by New Flyer, that do not currently comply with regulations governing maximum axle weight or length in certain jurisdictions. To date, only a few of New Flyer's customers have required that the Company reconfigure its buses to comply with local axle weight regulations. Transit bus operators often obtain waivers from the province or state in which they operate for vehicles that do not comply with the applicable requirements. However, such waivers are discretionary and as such there is no assurance that transit operators will continue to be able to obtain them in the future. For example, such waivers have not yet been issued in the province of Ontario. Management believes that this is an industry-wide problem related, in part, to industry trends including evolving environmental, disabled-access and other regulations which have resulted in the production of heavier or longer transit buses throughout the industry. Management believes that many of the provincial and U.S. federal and state axle weight or length regulations have not yet caught up with the other aspects of the overall regulatory regime applicable to transit buses and that such regulations need to be re-examined in light of developments in the industry. Management intends to address provincial and U.S. federal and state axle weight or length restrictions with its customers on a contract-by-contract basis, and expects that the industry and transit operators will lobby the government for changes to these regulations. See "Risk Factors — Risks Related to the Business — The Company may incur costs in connection with regulations relating to axle weight restrictions".

United States Bus Testing

All applicants for United States federal funding must certify to the FTA that any bus acquired with such funding has been tested in accordance with an endurance test conducted in Altoona, Pennsylvania to simulate 500,000 miles or 12 years of operation. The following tests are conducted at Altoona: safety, structural integrity and durability, reliability, performance, maintainability, noise and fuel economy. New Flyer's entire product offering has been tested in Altoona, and additional testing occurs regularly with the introduction of new products, such as the sixty-foot Xcelsior bus currently being tested, or in the case of substantial changes to existing products.

Certain major cities in Canada and the United States require a 500,000 mile/12-year shaker table test. This static test simulates revenue service life on some of the worse transit road conditions in the United States to test durability.

Disability Access Legislation

The Americans with Disabilities Act (the "ADA") prescribes certain minimum accessibility standards for vehicles that are purchased with United States federal funding. All of New Flyer's buses have been designed and/or tested to be compliant with the ADA. Although there is currently no equivalent federal legislation in Canada, most heavy-duty transit buses in Canada are also manufactured to provide access to persons with disabilities.

Litigation

New Flyer is subject to litigation from time to time in the ordinary course of its business. New Flyer is not aware of any pending or threatened litigation that would have a material adverse effect on the Company and its operations.

DESCRIPTION OF CAPITAL STRUCTURE

Share Capital of NFI

The authorized share capital of NFI consists of an unlimited number of Shares. As at January 1, 2012, 44,379,070, Shares were issued and outstanding, 555,185 of which were represented by IDSs.

Holders of Shares are entitled to receive dividends as and when declared by the board of directors and are entitled to one vote per Share on all matters to be voted on at all meetings of shareholders. Upon the voluntary or involuntary liquidation, dissolution or winding-up of NFI, the holders of Shares are entitled to share ratably in the remaining assets available for distribution, after payment of liabilities.

Shareholder Rights Plan

On August 29, 2011, NFI adopted the SRP which was ratified by the shareholders of NFI at the Special Meeting held on September 30, 2011. In connection with the implementation of the SRP, the Board authorized the issuance of one right in respect of each Share outstanding at the close of business on August 29, 2011 and one right in respect of each Share issued thereafter. The rights will separate from the Shares to which they are attached and will become exercisable upon the occurrence of certain events in accordance with the terms of the SRP. Generally, the SRP provides that if a person, or a group acting jointly or in concert, acquires (other than pursuant to an exemption available under the SRP) beneficial ownership of 20% or more of the Shares (except, among other exceptions, pursuant to a permitted bid under the SRP), the rights will separate from the Shares and permit holders of rights (other than the acquiring person) to purchase Shares at a substantial discount to market price. At any time prior to the rights becoming exercisable, the Board may waive the operation of the SRP with respect to certain events before they occur. A copy of the SRP is available on SEDAR at www.sedar.com.

Share Capital of NFI ULC

The authorized share capital of NFI ULC consists of an unlimited number of common shares and an unlimited number of Series 1 preferred shares. All of the issued and outstanding common shares and Series 1 preferred shares of NFI ULC are indirectly held by NFL Holdings.

Holders of common shares and Series 1 preferred shares of NFI ULC are entitled to receive dividends as and when declared by the board of directors. Holders of common shares of NFI ULC are entitled to one vote per common share on all matters to be voted on at all meetings of shareholders. Holders of Series 1 preferred shares are not entitled to vote except as specifically required by law. Upon the voluntary or involuntary liquidation, dissolution or winding-up of NFI ULC, the holders of common shares are entitled to share ratably in the remaining assets available for distribution, after payment of liabilities and subject to the prior rights of holders of Series 1 preferred shares to receive C$10.00 per share. Holders of Series 1 preferred shares may cause NFI ULC to redeem, or NFI ULC may redeem, in either case at any time, all or any of the outstanding Series 1 preferred shares of NFI ULC for an amount equal to C$10.00 per share.

Description of IDSs

As at January1, 2012, there were 555,185 IDSs issued and outstanding. Each IDS represents one Share of NFI and C$55.30 principal amount of Subordinated Notes of NFI ULC.

The ratio of Shares to principal amount of Subordinated Notes represented by an IDS is subject to change in the event of a stock split, recombination or reclassification, or upon a partial redemption or repurchase of the Subordinated Notes.

Voluntary Separation and Recombination

At any time holders of IDSs may separate their IDSs into the Shares and Subordinated Notes represented thereby through their broker or other financial institution. Similarly, any holder of Shares and Subordinated Notes may recombine the applicable number of Shares and principal amount of Subordinated Notes to form IDSs through their broker or other financial institution, at any time. See “Book-Entry Settlement and Clearance” below for more information on the method by which delivery and surrender of IDSs and delivery of Shares and Subordinated Notes may be effected.

Automatic Separation

Upon the occurrence of any of the following, the IDSs will be automatically separated into the Shares and Subordinated Notes represented thereby:

- with respect to any holder of IDSs, acceptance by such holder of NFI ULC’s offer to repurchase the Subordinated Notes represented by that holder’s IDSs in connection with a change of control of NFI or NFI ULC;
- exercise by NFI ULC of its right to redeem all or a portion of the Subordinated Notes that may be represented by IDSs at the time of such redemption;
- the date on which the outstanding principal amount of the Subordinated Notes becomes due and payable, whether at the stated maturity date or upon acceleration thereof;
- if CDS Clearing and Depository Services Inc. (“CDS”) is unwilling or unable to continue as securities depository with respect to the IDSs and the Issuer is unable to find a successor depository; or
- the continuance (without cure) of a payment default on the Subordinated Notes for 90 days.

Book-Entry Settlement and Clearance

General

CDS acts as securities depository for the Shares, the IDSs and the Subordinated Notes, which are referred to collectively as the "Securities". The Securities are represented by one or more global certificates (each, a "Global Certificate"). The Global Certificates for the IDSs, as well as any Shares and Subordinated Notes that are held separately from IDSs, are issued as fully-registered in book-entry only form in the name of CDS or its nominee, CDS & Co. The Global Certificates for the Shares and Subordinated Notes that are represented by IDSs are registered in the name of Computershare Trust Company of Canada, and are held in escrow for the benefit of CDS, the sole registered holder of IDSs, until such time as all or a portion of the IDSs are separated into the component Shares and Subordinated Notes.

If an investor intends to purchase Securities, an investor must do so through direct and indirect CDS participants. The participant through which a purchase is made will receive a credit for the applicable number of Securities on CDS' records. The ownership interest of each actual purchaser of the applicable security, referred to as a "beneficial owner", is recorded on the participant's records. Beneficial owners will not receive written confirmation from CDS of their purchases, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the CDS participant through which the beneficial owner holds its Securities.

All interests in the Securities are subject to the operations and procedures of CDS. The following is a summary of those operations and is provided by the Issuer solely for convenience. The operations and procedures of each settlement system may be changed at any time. The Issuer is not responsible for those operations and procedures.

To facilitate subsequent transfers, all Securities deposited by direct CDS participants are registered in the name of CDS. The deposit of Securities with CDS and their registration in the name of CDS effect no change in beneficial ownership. CDS has no knowledge of the actual beneficial owners of the Securities. CDS' records reflect only the identity of the direct CDS participants to whose accounts such Securities are credited, which may or may not be the beneficial owners. The CDS participants remain responsible for keeping account of their holdings on behalf of their customers.

Transfers of beneficial ownership interests in the Securities are effected by entries made on the books of the CDS participants acting on behalf of beneficial owners. Beneficial owners do not receive certificates representing their ownership interests in the applicable Security except in the event that use of the book-entry only system for the Securities is discontinued.

Cross-market transfers between CDS participants, on the one hand, and Depositary Trust Company ("DTC") participants, on the other hand, will be effected within CDS through DTC. To deliver or receive an interest in Securities held in a DTC account, an investor must send transfer instructions to DTC under the rules and procedures of that system and within the established deadlines of that system. If the transaction meets DTC's settlement requirements, DTC will send instructions to its CDS depositary to take action to effect final settlement by delivering or receiving interests in the Securities in CDS and making or receiving payment under normal procedures for same-day funds settlement applicable to CDS. DTC participants may not deliver instructions directly to the CDS depositary that is acting for DTC.

Conveyance of notices and other communications by CDS to direct participants, by direct participants to indirect CDS participants, and by CDS participants to beneficial owners are governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

CDS will not consent or vote with respect to the Securities. Only beneficial owners may consent or vote with respect to any Securities. Under its usual procedures, CDS mails an omnibus proxy to the Issuer as soon as possible after the record date. The omnibus proxy assigns CDS' consent or voting rights to those direct participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the omnibus proxy).

The Issuer and the Trustee (defined below) make payments on the Shares and Subordinated Notes (including those represented by IDSs) to CDS. CDS' practice is to credit direct CDS participants' accounts on the payment date in accordance with their respective holdings shown on CDS' records unless CDS has reason to believe that it will not receive payment on the payment date. Payments by CDS participants to beneficial owners are governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and are the responsibility of such participant and not of CDS, NFI, NFI ULC or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time.

The Issuer and the Trustee are responsible for the payment of all amounts to CDS. CDS is responsible for the disbursement of those payments to its participants, and the participants are responsible for disbursements of those payments to beneficial owners.

CDS may discontinue providing its service as securities depository with respect to any of the Securities at any time by giving reasonable notice to NFI, NFI ULC and the Trustee. If CDS discontinues providing its service as securities depository with respect to the IDSs and the Issuer is unable to obtain a successor securities depository, an investor will automatically take a position in the component securities and NFI and NFI ULC will print and deliver to the investor certificates representing the IDSs. If CDS discontinues providing its service as securities depository with respect to the Shares or Subordinated Notes and NFI or NFI ULC are unable to obtain a successor securities depository, NFI and NFI ULC will automatically take a position in such Shares and Subordinated Notes and will print and deliver to the investor certificates for such Shares and Subordinated Notes.

Also, in the event that NFI or NFI ULC decide to discontinue use of the system of book-entry only transfers through CDS (or a successor securities depository), NFI or NFI ULC will print and deliver to the investor certificates for the Shares and Subordinated Notes the investor may own.

The information in this section concerning CDS and CDS' book-entry only system has been obtained from sources that the Issuer believes to be reliable, including CDS, but the Issuer takes no responsibility for its accuracy.

Neither the Issuer nor the Trustee have any responsibility or obligation to participants, or the persons for whom they act as nominees, with respect to:

- the accuracy of the records of CDS, its nominee, or any participant, of any ownership interest in the securities; or

- any payments to, or the providing of notice to, participants or beneficial owners.

Separation and Recombination

Any voluntary or automatic separation of IDSs, and any subsequent recombination of IDSs from Subordinated Notes and Shares, is to be accomplished by entries made by the CDS participants on behalf of beneficial owners. In any such case, the participant's account through which a separation or recombination is effected will be credited and debited for the applicable securities on CDS' records.

Procedures Relating to Subsequent Issuances

The Indenture (as defined below) and the agreements with CDS provide that, in the event there is a subsequent issuance of Subordinated Notes, the terms of the newly issued Subordinated Notes (including interest and maturity) will be identical in all material respects to the previously issued Subordinated Notes and all such Subordinated Notes will be traded under the same CUSIP number. Any such subsequently issued Subordinated Notes may be issued at a discount or premium to the principal amount of Subordinated Notes issued under the IPO.

Description of Subordinated Notes

As at January 1, 2012, C$58.8 million principal amount of Notes were outstanding and held by third parties. Of these, C$31.3 million principal amount of Notes represent the Subordinated Notes issued as part of the IDSs (including those Subordinated Notes that have been subsequently separated from the Share component of the IDS by IDS holders). The remaining C$27.5 million represent the Separate Subordinated Notes. The Subordinated Notes have been issued under a trust indenture dated August 19, 2005 between NFI ULC, NFL Holdings, NFAI and Computershare Trust Company of Canada, as trustee (the "Trustee"), as amended by a supplemental indenture dated as of August 19, 2011 (the "Indenture"). The following summary of certain provisions of the Indenture is subject to, and is qualified in its entirety by reference to all the provisions of the Indenture. A copy of the Indenture is available on SEDAR at www.sedar.com.

Market

In certain circumstances, the Subordinated Notes and Shares represented by the IDSs will separate. There is no market through which the Subordinated Notes may be sold and holders of such Subordinated Notes may not be able to resell them.

Interest Rate

The Subordinated Notes bear interest at a rate of 14% per annum.

Record and Payment Dates

Interest is paid monthly in arrears on or before the 15th day of each month (or the next business day if such day is not a business day) to holders of record on the last business day of the preceding month.

Interest Deferral

Under certain circumstances, NFI ULC is permitted, at its election, on up to four occasions, to defer interest payments on the Subordinated Notes for a certain period of time (any such period, an "Interest Deferral Period"). Interest payments may not be deferred under this provision for more than eight months on any occasion. No Interest Deferral Period may commence unless and until all interest deferred pursuant to any preceding Interest Deferral Period, together with interest thereon, has been paid in full.

Maturity Date

The Subordinated Notes will mature on August 19, 2020.

Principal Repayment

On maturity, NFI ULC will repay the indebtedness represented by the Subordinated Notes by paying the Trustee, on behalf of the holders, an amount equal to the principal amount of the outstanding Subordinated Notes, together with accrued and unpaid interest.

Optional Redemption

On or after August 19, 2012, NFI ULC may redeem the Subordinated Notes, at its option, at any time in whole and from time to time in part, upon not less than 30 nor more than 60 days' notice, for cash, at the redemption prices (expressed as a percentage of the principal amount) set forth below together with, in each case, accrued but unpaid interest to the date of redemption. Any exercise by NFI ULC of its option to redeem Subordinated Notes, in whole or in part, will result in an automatic separation of the IDSs into Shares and Subordinated Notes.

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

Change of Control

Upon the occurrence of a Change of Control, as defined in the Indenture, NFI ULC is required to make an offer to each holder of Subordinated Notes to repurchase that holder's Subordinated Notes at a price equal to 101% of the principal amount of the Subordinated Notes being repurchased, plus any accrued but unpaid interest to the date of repurchase. However, a holder of IDSs will not be able to have its Subordinated Notes repurchased unless such holder surrenders the IDSs to the depositary, and receives delivery of the Shares and Subordinated Notes represented thereby.

Guarantee

The Subordinated Notes are unsecured obligations of NFI ULC and are guaranteed by NFAI. This guarantee is subordinate in right of payment to all existing and future senior indebtedness of the guarantor, including under the Credit Facility and the claims of the Company's sureties.

Ranking

The Subordinated Notes are unsecured senior subordinated indebtedness of NFI ULC and are subordinated in right of payment, as set forth in the Indenture, to all existing and future secured senior indebtedness of NFI ULC, including all indebtedness under the Credit Facility and the claims of the Company's sureties.

Restrictive Covenants

The Indenture contains covenants with respect to NFI ULC and NFL Holdings that restrict:

- the incurrence of additional indebtedness and issuance of disqualified stock and preferred stock;
- the payment of dividends on, and repurchase of, common shares of NFL Holdings and its subsidiaries;

- a number of other types of payments, including certain investments;
- specified sales of assets;
- specified transactions with affiliates; and
- consolidations, mergers and transfers of all or substantially all of the assets of NFL Holdings and NFI ULC.

The limitations and prohibitions described above are subject to a number of important qualifications and exceptions. For a more detailed description of the covenant limitations and prohibitions, please refer to the Indenture available on SEDAR at www.sedar.com.

Additional Issuances of IDSs and Subordinated Notes

Subject to certain covenants on the incurrence of indebtedness, the Indenture provides for the additional issuances of Subordinated Notes. The terms of any additional Subordinated Notes will be identical in all material respects to the Subordinated Notes distributed as part of the IDSs pursuant to the IPO. NFI ULC may issue additional Subordinated Notes at a discount or premium to the principal amount.

Canadian Withholding Tax

NFI ULC is entitled to deduct and withhold any applicable withholding taxes pursuant to the Tax Act from any payment to be made on the Subordinated Notes. The amount of any such deduction or withholding is considered an amount paid in satisfaction of NFI ULC's obligation under such Subordinated Notes and there is no obligation on NFI ULC to gross-up amounts paid to a holder in respect of such deductions or withholding. Pursuant to the Tax Act, interest (other than "participating debt interest" as defined in the Tax Act) paid or credited or deemed to paid or credited to any arm's length non-resident person will be exempt from Canadian withholding tax.

Dividend and Distribution Policy

Effective with the July 2011 distribution, payable on August 15, 2011 to IDS holders of record on July 29, 2011, the Company decreased its IDS distributions from C$1.17 per annum to C$0.86 per annum, consisting of an annual dividend payment of C$0.086 per pre-Consolidation Share (compared to the old annual dividend level of C$0.396 per pre-Consolidation Share) and an annual interest payment of C$0.774 per C$5.53 principal amount of Subordinated Note. Following the Consolidation on September 30, 2011 (pursuant to which one post-Consolidation Share was exchanged for every ten pre-Consolidation Shares and the ratio of Shares and Subordinated Notes represented by each IDS was automatically adjusted to one post-Consolidation Share and C$55.30 principal amount of Subordinated Notes), the Special Distribution was adjusted accordingly and the Company began paying annual dividends of C$0.86 per Share, which, together with annual interest payments of C$7.74 on the principal amount of Subordinated Notes represented by each IDS, result in annual distributions of C$8.60 per IDS. The Board expects to maintain this Special Distribution on a monthly basis until no later than August 2012, the month during which NFI ULC first has the option to redeem the Subordinated Notes, although such distributions are not assured.

For dividends to be paid after August 2012, NFI currently anticipates establishing an annualized dividend equal to approximately 50% of the old annual IDS distribution level of C$1.17 per IDS. This new dividend policy reflects a shift from the previous distribution policy, pursuant to which substantially all of the Company's available cash flow was distributed to IDS holders. The Board believes adoption of this new Share dividend policy is consistent with the Company's long-term financial performance and the need to retain cash flows to support the ongoing requirements of the business and to provide the financial flexibility to pursue strategic growth and diversification opportunities.

The dividends on the Shares (including those represented by IDSs) will be paid, if and to the extent dividends are declared by the Board and permitted by applicable law. Dividend payments are not mandatory or guaranteed. The Board may, in its discretion, modify or repeal NFI's current dividend policy at any time and without prior notice. No assurances can be made that NFI will pay dividends at the level contemplated by its current dividend policy in the future, or at all. See "Risk Factors – Risks Related to our Capital Structure – Payment of Dividends is Not Guaranteed".

NFI will pay dividends on the Shares (if declared) and NFI ULC will pay interest on the Subordinated Notes on or before the 15th day of each month (or the next business day, if such day is not a business day) to holders of record at the close of business on the last business day of the preceding month.

The Issuer may make additional distributions in excess of monthly distributions during the year, as the board of directors may determine in its sole discretion.

Assuming that NFI ULC makes the scheduled interest payments on the Subordinated Notes and NFI pays dividends on the Shares in the amount contemplated by the dividend policy, a holder of an IDS would receive, in the aggregate, approximately C$8.60 per year per IDS in dividends on the Share and interest on the Subordinated Notes.

Dividends and Distributions Declared on Shares and IDSs

The following tables illustrate the monthly dividends paid on the Shares, the monthly interest payments made on the Subordinated Notes and the monthly distributions made on the IDSs for the period from January 1, 2009 to December 31, 2011. As of September 30, 2011, dividends on the Shares and distributions on the IDSs were paid on a post-Consolidation basis and reflect a consolidation of the Shares on a 10:1 basis and the adjustment made to the IDSs to reflect that IDSs represent, on a post-Consolidation basis, one Share and C$55.30 principal amount of Subordinated Notes.

Record Date	Dividend per Share (Cdn$)	Interest Payment on Subordinated Notes (Cdn$)	Total Distribution Per IDS (Cdn$)
January, 30, 2009 ………………………………...	0.03298	0.06452	0.0975
February 27, 2009 ………………………………..	0.03298	0.06452	0.0975
March 31, 2009….……………………………..	0.03298	0.06452	0.0975
April 30, 2009 ……………………………………	0.03298	0.06452	0.0975
May 29, 2009 …………………………………….	0.03298	0.06452	0.0975
June 30, 2009 …………………………………….	0.03298	0.06452	0.0975
July 31, 2009 …………………………………….	0.03298	0.06452	0.0975
August 31, 2009 ………………………………….	0.03298	0.06452	0.0975
September 30, 2009 ……………………………...	0.03298	0.06452	0.0975
October 30, 2009 …………………………………	0.03298	0.06452	0.0975
November 30, 2009 ………………………………	0.03298	0.06452	0.0975
December 31, 2009*………………………………	0.03298	0.06452	0.0975
Total Fiscal Year 2009 Distributions.......................	0.39576	0.77424	1.17

	Dividend per Share	Interest Payment on Subordinated Notes	Total Distribution Per IDS
January 29, 2010 …………………………………...	0.03298	0.06452	0.0975
February 26, 2010 …………………………………..	0.03298	0.06452	0.0975
March 31, 2010 ……………………………………..	0.03298	0.06452	0.0975
April 30, 2010 ………………………………………	0.03298	0.06452	0.0975
May 31, 2010 ……………………………………….	0.03298	0.06452	0.0975
June 30, 2010 ……………………………………….	0.03298	0.06452	0.0975
July 30, 2010 ……………………………………….	0.03298	0.06452	0.0975
August 31, 2010 …………………………………….	0.03298	0.06452	0.0975
September 30, 2010 ………………………………...	0.03298	0.06452	0.0975
October 29, 2010 ……………………………………	0.03298	0.06452	0.0975
November 30, 2010 …………………………………	0.03298	0.06452	0.0975
December 31, 2010*…………………………………	0.03298	0.06452	0.0975
Total Fiscal Year 2010 Distributions........................	0.39576	0.77424	1.17
January 31, 2011 …………………………………...	0.03298	0.06452	0.0975
February 28, 2011 …………………………………..	0.03298	0.06452	0.0975
March 31, 2011 ……………………………………..	0.03298	0.06452	0.0975
April 29, 2011 ………………………………………	0.03298	0.06452	0.0975
May 31, 2011 ……………………………………….	0.03298	0.06452	0.0975
June 30, 2011 ……………………………………….	0.03298	0.06452	0.0975
July 29, 2011 ……………………………………….	0.03298	0.06452	0.0975
August 31, 2011**………………………………….	0.007167	0.06452	0.07167
September 30, 2011***…………………………......	0.07167	0.6452	0.7167
October 31, 2011 ……………………………………	0.07167	0.6452	0.7167
November 30, 2011 …………………………………	0.07167	0.6452	0.7167
December 30, 2011*…………………………………	0.07167	0.6452	0.7167
Total Fiscal Year 2011 Distributions........................	0.52470	3.09696	3.62****

* Declared in the year indicated but paid in the following year.

** Effective with the July 2011 distribution payable on August 15, 2011, dividends on the Shares were decreased from C$0.03298 per month per Share to C$0.007167 per month per pre-Consolidation Share (or C$0.396 per pre-Consolidation Share to C$0.86 per pre-Consolidation Share on an annual basis).

*** Reflects dividends on the Shares and distributions on the IDSs paid on a post-Consolidation basis.

**** Rounded to the nearest hundredth

Credit Facility

On July 26, 2011, NFI ULC and NFAI (collectively, the "Borrower"), entered into the Credit Facility with a syndicate of financial institutions, in the amount of $195 million. The Credit Facility consists of a $105 million secured term loan facility (including a $15 million delayed draw loan) and a revolving credit facility of up to $90 million (including a $55 million letter of credit sub-facility). The Credit Facility matures on April 24, 2014 and replaces the First Amended Credit Facility. The Credit Facility was amended and restated to relax certain financial covenants as compared to the First Amended Credit Facility. Additionally, the Credit Facility provides for a significant reduction in interest payments (by operation of lower interest margins and by setting the margin levels according to a total leverage test instead of a senior leverage test, which is more favourable to the Company). A copy of the Credit Facility can be found on SEDAR at www.sedar.com.

The Credit Facility is guaranteed by NFI and certain subsidiaries of NFI, and the obligations in respect of the Credit Facility are secured by all of the assets of the Borrower and those guarantors. NFI will continue to receive its cash distributions from the Borrower and the guarantors of the Credit Facility, and as a result, the amounts owing under the Credit Facility and any interest thereon will be payable in priority to any cash distributions to holders of Shares and Subordinated Notes.

DIRECTORS, OFFICERS AND MANAGEMENT

The Issuer

Directors of New Flyer Industries Inc.

NFI's articles of incorporation provide for a minimum of three and a maximum of 20 directors. NFI's board consists of seven individuals and is comprised as follows:

- The Honourable Brian Tobin, V. James Sardo, Wayne M.E. McLeod, Patricia Jacobsen, Paul Soubry and John Marinucci, the former President and Chief Executive Officer of the Issuer (having retired in January, 2009), each of whom are Canadian residents. The Honourable Brian Tobin serves as the chairman of the board of directors; and

- Larry Edwards, a U.S. resident.

The following table sets out the name, municipality of residence, position(s) with the Company and principal occupation of the directors of the Issuer.

Name and Municipality of Residence	Position(s)	Director Since	Principal Occupation If not with the Company
The Honourable Brian Tobin …………… Ottawa, Ontario	Director (Chairperson of the Board)	2005	Corporate Director
V. James Sardo ……………………………. Mississauga, Ontario	Director (Chairperson of the human resources committee)	2005	Corporate Director
Wayne M.E. McLeod …………………… Toronto, Ontario	Director (Chairperson of the audit committee)	2005	Corporate Director
John Marinucci ……………………………. Oakville, Ontario	Director	2005	Corporate Director
Larry Edwards ……….…………………… Tulsa, Oklahoma, USA	Director	2008	Corporate Director
Patricia Jacobsen ………………………… Vancouver, British Columbia	Director	2009	Corporate Director
Paul Soubry ……………………………….. Winnipeg, Manitoba	Director	2009	President and Chief Executive Officer of the Company

The term of office for each of the directors of NFI expires at the time of the next annual meeting of shareholders of NFI. Directors will be elected at each annual meeting of shareholders of NFI.

A director may be removed by a resolution passed by a majority of the shareholders or may resign. The vacancy created by the removal of a director must be filled at the shareholder meeting at which he or she was removed. A vacancy not so filled at a shareholder meeting, or created by the resignation of a director, may be filled by a quorum of the remaining directors. A quorum for meetings of directors is a majority of the directors, provided that a majority of directors present (or one director, where a quorum is two directors) must be residents of Canada. If there is no quorum of directors, a special shareholder meeting must be called to fill vacancies.

The directors supervise the activities and manage the affairs of NFI, including acting for, voting on behalf of and representing NFI as a holder of common shares of NFL Holdings.

Audit Committee

The Issuer's audit committee is comprised of a minimum of three directors. All of the members of the audit committee are independent within the meaning of Multilateral Instrument 52-110 *Audit Committees* ("NI 52-110"). The audit committee is comprised of five members, being Wayne M.E. McLeod (Chair), The Honourable Brian Tobin, V. James Sardo, Larry Edwards and Patricia Jacobsen.

The audit committee is responsible for the oversight and supervision of the accounting and financial reporting practices and procedures of the Issuer, the adequacy of internal accounting controls and procedures, the quality and integrity of financial statements of the Issuer and the oversight of the Issuer's enterprise risk management framework. In addition, the audit committee is responsible for directing the auditors' examination of specific areas and for recommending to the board of directors the selection of independent auditors of the Issuer.

Human Resources, Compensation and Corporate Governance Committee

The Issuer has a human resources, compensation and corporate governance committee comprised of five directors. The members of the committee are V. James Sardo (Chair), The Honourable Brian Tobin, Wayne McLeod, Larry Edwards and Patricia Jacobsen. All of the members of the human resources, compensation and corporate governance committee are independent within the meaning of NI 52-110. The committee reviews and makes recommendations to the directors concerning the appointment of officers of the Issuer and its subsidiaries and the hiring, compensation, benefits and termination of senior officers of the Issuer and its subsidiaries. The committee annually reviews the Chief Executive Officer's goals and objectives for the upcoming year and conducts quarterly reviews of the Chief Executive Officer's performance. The committee also makes recommendations concerning the remuneration of directors of the Issuer and its subsidiaries. The committee administers and makes recommendations regarding the operation of any employee bonus or incentive plans, including the performance unit plan and the restricted share unit plan, and administers the deferred share unit plan for non-management directors. The committee is also responsible for developing the Issuer's approach to corporate governance issues, advising the Issuer's board on filling vacancies on the boards of the Issuer and its subsidiaries and periodically reviewing the composition and effectiveness of each board and the contribution of individual directors, considering questions of management succession and considering and approving proposals by the directors of the Issuer to engage outside advisors on their behalf.

Disclosure

The board of directors is also responsible for adopting and periodically reviewing and updating the written disclosure policy for the Issuer and its subsidiaries. This policy, among other things:

- articulates the legal obligations of the Issuer, its affiliates and their respective directors, officers and employees with respect to confidential information;

- identifies spokespersons of the Issuer, who are the only persons authorized to communicate with third parties such as analysts, media and investors;

- provides guidelines on the disclosure of forward-looking information;

- requires advance review by senior executives of any selective disclosure of financial information to ensure that the information is not material, to prevent the selective disclosure of material information, and to ensure that if selective disclosure does occur, a news release is issued immediately; and

- establishes "black-out" periods immediately prior to and following the disclosure of quarterly and annual financial results and immediately prior to the disclosure of certain material changes, during which periods the Issuer, its subsidiaries and their directors, managers, officers, employees and consultants may not purchase or sell IDSs, Shares or Subordinated Notes or other securities of the Issuer or its subsidiaries (including securities exchangeable for or convertible into IDSs, Shares or Subordinated Notes).

Remuneration of the Directors

In 2011, compensation for non-management directors of New Flyer was C$60,000 per year and C$1,500 per meeting for attending board and committee meetings, whether in person or by phone. For 2012, compensation for non-management directors of NFI is C$75,000 per year with C$60,000 being paid in cash. The non-management directors have elected to receive the balance of C$15,000 of their 2012 retainer in the form of deferred share units under NFI's Deferred Share Unit Plan for Non-Employee Directors (as described below) in four equal quarterly installments having a fair market value of C$3,750 at the time of issuance. For 2012, the non-management directors will also receive C$1,500 per meeting for attending board and committee meetings, whether in person or by phone. The chairperson of the board receives additional remuneration of C$90,000 per year. The chairperson of the audit committee receives additional remuneration of C$15,000 per year and the chairperson of the human resources, compensation and corporate governance committee receives additional remuneration of C$10,000 per year. Directors may also receive a per diem of C$2,000 in the event that they perform additional work authorized by the board where such additional work occupies a majority of the director's day. Directors are also reimbursed for out-of-pocket expenses for attending board and committee meetings. Directors participate in the insurance and indemnification arrangements described below under "Insurance Coverage for the Company and Indemnification".

Deferred Share Unit Plan for the Non-Employee Directors

The Board adopted NFI's Deferred Share Unit Plan for Non-Employee Directors on November 7, 2011. Pursuant to the plan, non-management directors may elect to receive all or a portion of their annual retainer and meeting fees in the form of DSUs instead of cash. A DSU is the right to receive a cash payment based on the value of a Share credited by means of a bookkeeping entry to an account in the name of the non-employee director. DSUs are credited to the director's account on the last day of each calendar quarter, the number of which is determined by dividing the amount of the applicable portion of the director's annual retainer by the fair market value of a Share on that date. When dividends are paid on a Share, additional DSUs equivalent to the amount of the dividend multiplied by the number of DSUs held (and determined based on the then fair market value of the Shares) will be credited to the director's account. At the end of the director's tenure as a member of the Board, he or she will be entitled to receive a cash redemption payment equal to the fair market value of a Share multiplied by the number of DSUs held.

Management

Paul Soubry is the President and Chief Executive Officer, Glenn Asham is the Chief Financial Officer and Colin Pewarchuk is Executive Vice President, General Counsel and Corporate Secretary of the Company.

NFI ULC

The composition of the board of directors, audit committee and human resources, compensation and corporate governance committee of NFI ULC is identical to those of NFI. The directors of NFI that serve on the board of directors of NFI ULC do not receive any additional compensation for such services.

The following table sets out the name, municipality of residence and position(s) of the executive officers of NFI ULC:

Name and Municipality of Residence	Executive Position(s)
Paul Soubry…. …………………………………………………….. Winnipeg, Manitoba	President and Chief Executive Officer
Glenn Asham …………………………………………………………. Winnipeg, Manitoba	Chief Financial Officer and Treasurer
Colin Pewarchuk …………………………………………………... Winnipeg, Manitoba	Executive Vice President, General Counsel and Corporate Secretary
Wayne Joseph………………………………………………………… Sartell, Minnesota	Executive Vice President, Operations
Ian Smart ……………………………………………………………… Cartier, Manitoba	Executive Vice President, Aftermarket
Paul Smith …………………………………………………………… Winnipeg, Manitoba	Executive Vice President, Sales and Marketing
David White …………………………………………………………. Winnipeg, Manitoba	Executive Vice President, Supply Management
Kevin Wood ………………………………………………………… Sauk Rapids, Minnesota	Vice President, Manufacturing
Chris Stoddart ………………………………………………………... Winnipeg, Manitoba	Vice President, Engineering Services
Margaret Lewis ………………………………………………………. St. Michael, Minnesota	Vice President, Quality and Continuous Improvement
Janice Harper ………………………………………………………… Winnipeg, Manitoba	Vice President, Human Resources

Biographies of Directors and Executive Officers of NFI ULC

The Honourable Brian V. Tobin, P.C., ICD.D, served as the Federal Minister of Industry from October 2000 to January 2002. Mr. Tobin is Chairman of the board of New Flyer. Previously, he served as the Premier of Newfoundland and Labrador from 1996 to 2000 and won two consecutive majority governments in provincial elections held in February 1996 and February 1999. Mr. Tobin served as a Member of Parliament from 1980 to 1996 and served as Minister of Fisheries and Oceans in the federal cabinet from 1993 to 1996. Mr. Tobin is currently Senior Business Advisor with Fraser Milner Casgrain LLP in Toronto and is strategic advisor to a number of Canadian corporations. Mr. Tobin also serves on the boards of Aurvista Gold Corporation, Calvista Gold Corporation and Aecon Group Inc. Mr. Tobin served as the executive chairman, President and Chief Executive Officer of Consolidated Thompson Iron Mines Limited until May 2011 when that company was purchased by Cliffs Natural Resources Inc. Mr. Tobin has previously served as a director of Lions Gate Entertainment Corp. and Canpages Inc. and was a trustee of Newport Partners Income Trust. Mr. Tobin is a member of the Institute of Corporate Directors and a graduate of the Directors Education Program.

V. James Sardo, ICD.D, is a corporate director and since 2009 has been a director of Capstone Infrastructure Corporation (formerly Macquarie Power and Infrastructure Corporation). Mr. Sardo was a director of Consolidated Thompson Iron Mines Limited from 2010 to 2011, Royal Group Technologies Limited from 2003 to 2006, Hydrogenics Corporation from 2003 to 2009, SonnenEnergy Corp from 2008 to 2009 and Northstar Healthcare Inc. from 2008 to 2010. Mr. Sardo was also a trustee of Countryside Power Income Fund from 2004 to 2007; Union Waterheater Income Trust from 2003 to 2007; and Custom Direct Income Fund form 2003 to 2007. Prior to these appointments, Mr. Sardo was interim

CEO of Royal Group Technologies Limited from 2004 to 2005, President of the Canadian Operations of Moore Corporation Limited, a business forms and communications company, from 1999 to 2001 and President and CEO of SMK Speedy International Inc., an international automotive repair company, from 1997 to 1999. Prior to 1997 Mr. Sardo was Chief Executive Officer of Amre Inc., a Dallas based marketer of home improvement products from 1994 to 1995 and Chief Executive Officer of SNE Inc., a manufacturer and marketer of windows and doors from 1991 to 1994. Mr. Sardo was the President of Firestone Canada Inc. from 1983 to 1988 and its Chief Executive Officer from 1985 to 1988. Mr. Sardo is a member of the Institute of Corporate Directors and a graduate of the Directors Education Program.

Wayne M.E. McLeod is a corporate director and currently serves as a member of the board of directors of Morguard Investments Inc. and is a trustee of Richards Packaging Income Fund. Mr. McLeod was a trustee of Atlas Cold Storage Income Fund until October 2006, a director of CanWest Mediaworks Inc. until July, 2007, a director of Turbo Power Systems Inc. until 2008 and a director of SMTC Corporation until 2011. He is also a Fellow of the Institute of Chartered Accountants of Ontario. He received his Masters of Business Administration from Harvard University in 1965. Mr. McLeod retired in 1999 after 20 years with CCL Industries Inc., where he served as President, Chief Executive Officer and Chairman of the board of directors, among other positions. Mr. McLeod has served twice as an executive-in-residence for the Institute of Corporate Directors and is the past chairperson of the Institute.

Larry Edwards, ICD.D, is a corporate director and served on the board of NCI Building Systems, Inc. from 2007 to 2009. Mr. Edwards was a director of Global Power Equipment Group Inc. (“GPEG”) and its predecessor Global Energy Equipment Group, Inc. from 1998 until January, 2008. Mr. Edwards served as the President and Chief Executive Officer of GPEG from June 1998 until his retirement in December 2006. Mr. Edwards also served as the CEO of GPEG’s predecessor company from June 1998 until GPEG’s initial public offering in May 2001. From February 1994 until June 1998, Mr. Edwards served as the President of Jason Incorporated’s power generation division. From 1976 until 1994, Mr. Edwards held various positions with Braden Manufacturing, including Vice President of Operations, General Manager and President. Prior to the IPO, Mr. Edwards served on the Board of Transit Holdings since August 2004. Mr. Edwards earned a B.S. in Industrial Engineering and Management from Oklahoma State University and an M.B.A. with honors from Oklahoma City University. Mr. Edwards is a member of the Institute of Corporate Directors and a graduate of the Directors Education Program.

John Marinucci, C.A., ICD.D, H.R.C.C.C, joined New Flyer as President and Chief Executive Officer in 2002 and retired as an executive officer of the Company at the beginning of 2009. Mr. Marinucci currently serves as a director of Intelgenx Corporation and is a governor of Mohawk College in Hamilton, Ontario. Mr. Marinucci previously served as a director of SMTC Corporation. Mr. Marinucci is a Chartered Accountant and holds an Honours Bachelor of Commerce degree from McMaster University. Mr. Marinucci has a strong manufacturing background with a proven track record in operational restructurings and management of highly leveraged business concerns. Mr. Marinucci served for eight years as President and Chief Operating Officer for a major Canadian manufacturer and lessor of freight railcars and is a former President of the Canadian Association of Railway Suppliers. He has also held executive and senior management roles within leading Canadian and United States based organizations. Mr. Marinucci is also a member of several private company boards and is the founder and Chairman of the Marinucci Family Foundation, a registered charity focused on funding education, live arts and proactive healthcare initiatives. Mr. Marinucci is a member of the Institute of Corporate Directors and a graduate of the Directors Education Program.

Patricia Jacobsen has been a corporate director since she stepped down in 2008 as the CEO of the Greater Vancouver Transportation Authority (TransLink). Ms. Jacobsen is also a director of Revera Inc., a Canadian investment and operations company with retirement and residential homes in Canada and the United States. Ms. Jacobsen was the Chair of the British Columbia Transportation Property and Casualty

Company, and served as a director of Port Metro Vancouver, Air Canada, the Urban Transit Development Corporation (Ontario) and the Canada Line Corporation (B.C.). A graduate of the University of Manitoba, Ms. Jacobsen held several senior positions with the Ontario Provincial Government, including Deputy Minister of Transportation. Following her public service career, Ms. Jacobsen held senior executive positions in the insurance industry with Manulife Financial and Liberty Mutual in Toronto and was the CEO of the Workers' Compensation Board of Manitoba. Ms. Jacobsen is a member of the Institute of Corporate Directors and has completed two of the four modules of the Directors' Education Program.

Paul Soubry, ICD.D, joined New Flyer as President and Chief Executive Officer in January, 2009. Mr. Soubry holds a Bachelor of Commerce (Honours) degree from the University of Manitoba and completed the executive development program at Harvard Business School. Mr. Soubry has a strong sales, marketing, business development and operations background in highly leveraged businesses held by both trade and private equity owners with substantial experience in business transformations and LEAN operational practices. Prior to joining New Flyer, Mr. Soubry worked for StandardAero where he held a variety of increasingly senior positions including being named President in 2001, Chief Operating Officer in 2006, and Chief Executive Officer in 2007. Mr. Soubry currently serves on the boards of the Winnipeg Airports Authority and Economic Development Winnipeg Inc. and served on the board of the Mondetta Clothing Company. In 2003, Mr. Soubry was named one of the recipients of "Canada's Top 40 under 40" award. Mr. Soubry is a member of the Institute of Corporate Directors and a graduate of the Directors Education Program.

Glenn Asham joined New Flyer in 1992. Mr. Asham obtained his chartered accountancy designation in 1987 and a Bachelor of Commerce from the University of Manitoba in 1984. Prior to joining the Company, he worked with Deloitte & Touche for eight years, providing client services in the areas of accounting, auditing, taxation and management consulting.

Colin Pewarchuk joined New Flyer at the end of February, 2006 and is the Executive Vice President, General Counsel and Corporate Secretary. Mr. Pewarchuk obtained a Bachelor of Commerce (Honours) from the University of Manitoba in 1990 after which he worked for a leading Canadian financial institution as a personal banker. Mr. Pewarchuk obtained a law degree from the University of Manitoba in 1996 and prior to joining New Flyer, was a lawyer at the law firm of Aikins, MacAulay & Thorvaldson LLP since 1997. Mr. Pewarchuk is a member of the Institute of Corporate Directors and a graduate of the Directors Education Program.

Wayne R. Joseph joined New Flyer as Executive Vice President, Operations in July, 2008. Mr. Joseph holds a Bachelor of Science in Business Administration along with a degree in Accounting from Ashland University, Ohio and is certified by The Association for Operations Management. Mr. Joseph has held executive level positions at North American Bus Industries, Blue Bird Body Company and BAE Systems. Mr. Joseph has extensive experience and a proven record of excellence in vehicle manufacturing operations and the heavy duty transit market.

Ian Smart joined New Flyer in October 2011 as the Executive Vice President, Aftermarket. Prior to joining New Flyer, Mr. Smart spent 14 years at StandardAero where he held a number of managerial and executive positions including Senior Vice President of the Airlines and Fleets Division, Vice President, Strategy and Vice President of Marketing and Business Development. In these roles, Mr. Smart gained a broad range of professional experience that included business transformations, operations management, marketing, business development and sales. Mr. Smart has a Bachelor of Science in Industrial Engineering from the University of Manitoba.

Paul Smith provides executive leadership for all of the Company's sales and marketing activities including managing customer relations, ensuring competitive bus contract bidding, managing the administration of bus contracts and providing market forecasting. Mr. Smith has over 15 years of design experience in the mechanical technical field, having spent the last 21 years with New Flyer. Since joining New Flyer, Mr. Smith spent six years in the engineering department as a designer on various projects including the original low-floor prototype bus. For the last 15 years, Mr. Smith has served the Company's sales department in various senior roles and has been providing Executive oversight in Sales and Marketing since May, 2000.

David White joined New Flyer in 1998 as Corporate Controller and moved to the position of Vice-President, Supply Management in 2002. He was appointed Executive Vice-President, Supply Management in 2006 and he is responsible for the activities of pricing bids, strategic sourcing, operational purchasing, production planning, materials management and logistics. Mr. White obtained his chartered accountancy designation in 1993 after graduating with a Bachelor of Commerce with honours from the University of Manitoba in 1990. Prior to joining the Company, Mr. White worked with Deloitte & Touche for eight years.

Kevin Wood joined New Flyer at the end of January, 2009 as the Vice President, Manufacturing. Mr. Wood holds a Bachelor of Science in Business Administration together with a degree in Accounting from Ashland University, Ohio and CPIM status from The Association for Operations Management. During his professional career, he has operated in a variety of senior management positions within the transportation industry. He has a very strong background in operational transformations and a proven track record in achieving world class operational practices.

Chris Stoddart joined New Flyer in December, 2007 as Vice President, Engineering Services. Mr. Stoddart obtained his Professional Engineers designation in 1997 after graduating with a Bachelor of Science in Mechanical Engineering from Kettering University in Michigan (formerly GMI Engineering and Management Institute) in 1994. Mr. Stoddart has a strong manufacturing background with nine years of automotive experience at a General Motors car assembly plant, and nine years experience in manufacturing freight railcars at National Steel Car. During his time at National Steel Car, Mr. Stoddart held positions of increasing responsibility, including Director of Process Engineering, Managing Director of Manufacturing Engineering, and over five years as Vice President of Engineering Services.

Margaret Lewis joined the Company in October, 2009 as the Vice President, Quality Assurance and Continuous Improvement. Ms. Lewis is responsible for the quality assurance and continuous improvement functions for the Company. Prior to joining the Company, Ms. Lewis spent 15 years with Lear Corporation holding various positions in quality, plant management and operations. Ms. Lewis began her career with the Motor Wheel Corporation in Akron, Ohio. Ms. Lewis holds a Bachelor of Science degree in Mechanical Engineering from the University of Akron, in Akron, Ohio and an MBA from Michigan State University.

Janice Harper joined the Company in 1998 as a Human Resources Coordinator and in October, 2009 was promoted to the position of Vice President, Human Resources. Ms. Harper is responsible for the people function across the organization, including sourcing and selection of talent, operational efficiency and effectiveness, staff relations/practices and employee communication. Ms. Harper's team is also responsible for safety, health, wellness and environmental, and organizational training and development. Prior to joining the Company, Ms. Harper spent ten years in recruitment/selection, disability management and industrial relations for Westfair Foods Ltd. Ms. Harper holds a Diploma in Creative Communications from Red River Community College and a certificate in Human Resources Management from the University of Winnipeg. Ms. Harper is a Certified Human Resources Professional (CHRP), has obtained the Human Resources Compensation Committee designation from the Director's College at McMaster University. She is also currently completing her Bachelor of Arts in Communications at the University of Winnipeg.

The directors and executive officers of the Issuer as a group, beneficially own, directly or indirectly, approximately 1.2 million Shares, being approximately three percent of all issued and outstanding Shares. None of the directors or officers of the Issuer own IDSs.

Cease Trade Orders, Bankruptcies, Penalties and Sanctions

Between April 3, 2006 and May 3, 2006, Mr. Sardo, who was then a director of Royal Group Technologies Limited, was prohibited from trading in securities of Royal Group Technologies Limited pursuant to a management cease trade order issued by the Ontario Securities Commission in connection with the delay in filing of certain of Royal Group Technologies Limited's financial statements.

On September 28, 2006, Global Power Equipment Group Inc. ("GPEG") and all of its U.S. subsidiaries filed voluntary petitions for reorganization under chapter 11 of title 11, United States Code in the United States Bankruptcy Court for the District of Delaware. Mr. Edwards served as Chairman of the Board, President and Chief Executive Officer at the time of filing. On November 22, 2006, Mr. Edwards resigned as President and Chief Executive Officer of the Company; remaining as Chairman of the Board. GPEG and its U.S. subsidiaries emerged from bankruptcy proceedings in January, 2008 and Mr. Edwards resigned as a director of GPEG.

For a period of less than two months between October 26, 2004 and December 12, 2004, Mr. Soubry served as a director of Crocus Investment Fund ("Crocus"), a labour-sponsored venture capital corporation created by The Crocus Investment Fund Act (Manitoba). On December 10, 2004, in connection with an organizational review and assessment of the value of its portfolio, Crocus received regulatory approval from the Manitoba Securities Commission to suspend redemptions and to halt sales of its shares. On June 28, 2005, Deloitte & Touche Inc. was appointed receiver and manager of Crocus by the Manitoba Court of Queen's Bench pursuant to an application made by the Manitoba Securities Commission and on September 4, 2009, the Manitoba court approved an interim distribution to all shareholders of Crocus and the distribution of funds to shareholders in settlement of various proceedings brought against Crocus.

Except as described above, to the knowledge of the Issuer, no director or executive officer of the Issuer or a shareholder holding a sufficient number of securities of the Issuer to affect materially the control of the Issuer is, or within the ten years prior to the date hereof has been, a director or executive officer of any company (including the Issuer) that, while that person was acting in that capacity, (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days; (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days; or (iii) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

To the knowledge of the Issuer, no director or executive officer of the Issuer or a shareholder holding a sufficient number of securities of the Issuer to affect materially the control of the Issuer has, within the ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, officer or shareholder.

Long-Term Incentive Plans

Effective January 1, 2008, NFI ULC adopted the PUP to replace the Company's previous long-term incentive plan that was discontinued at the end of 2009. Effective January 1, 2011, NFI ULC amended the PUP as the New Performance Unit Plan (the "New PUP"). The terms of the PUP will continue to govern awards made prior to January 1, 2011 and the terms of the New PUP will govern awards made on or after January 1, 2011. As a result of the changes in the capital structure of NFI and NFI ULC, the human resources compensation and corporate governance committee determined that it was necessary to make certain changes to the PUP and the New PUP. Accordingly, the PUP and the New PUP were amended on October 2, 2011 to treat the PUP and New PUP awards on an equivalent basis as IDSs that were converted into Shares pursuant to the August 19, 2011 offering and taking into account the September 30, 2011 consolidation of Shares.

On December 13, 2011, the Board approved the NFI ULC Restricted Share Unit Plan (the "RSU Plan") and provides for grants of restricted share units ("RSUs") to officers and senior managers of the Company. An RSU is the right to receive a cash payment based on the fair market value of a Share, subject to vesting.

The purposes of the PUP, the New PUP, and the RSU plans (collectively, the "Incentive Plans") are to attract, retain, motivate and reward officers and senior managers of the Company by making a significant portion of their long term incentive compensation dependent on the Company's financial performance. One of the key advantages of the Incentive Plans are that they will further align the interests of management and investors given that the award grant and redemption values will be determined based on the fair market value of the Shares. Under the terms of the Incentive Plans, the human resources, compensation and corporate governance committee may grant eligible participants each year unit grants thereunder which give the holders thereof the right to receive, upon vesting and redemption of units, a cash payment equal to the fair market value of a Share. When dividends are paid on a Share, additional units equivalent to the amount of the dividends multiplied by the number of units held (and determined based on the then fair market value of the Shares) will be credited to the participant's account. Units granted under the PUP and the New PUP generally vest at the end of the third fiscal year following the date of grant in an amount equal to a percentage of between approximately 38% and 256% of the units in the participant's account, depending on the position and subject to and based on the Company achieving certain specified Adjusted EBITDA targets. RSUs will generally vest at the end of the third fiscal year following the date of grant. Following the time of vesting, participants will be entitled to receive cash redemption payments equal to the fair market value of a Share for every vested unit held. Units shall also immediately vest upon the closing of a transaction resulting in certain change of control events and upon certain terminations of employment.

Insurance Coverage for the Company and Indemnification

The Company obtained a policy of insurance for directors and officers of NFI and for the directors and officers of its subsidiaries. Under the policy, each entity has reimbursement coverage to the extent that it has indemnified directors and officers. The policy includes securities claims coverage, insuring against any legal obligation to pay on account of any securities claims brought against NFI and its subsidiaries. The total limit of liability will be shared among NFI and its subsidiaries and their respective directors and officers so that the limit of liability will not be exclusive to any one of the entities or their respective directors and officers.

The by-laws of each of NFI and NFI ULC provide for the indemnification of each of their respective directors and officers from and against liability and costs in respect of any action or suit brought against them in connection with the execution of their duties of office, including in respect of periods prior to closing of the IPO, subject to certain limitations.

AUDIT COMMITTEE AND AUDITOR'S FEES

The Issuer has an audit committee consisting of five directors: Wayne M.E. McLeod (Chair), The Honourable Brian Tobin, V. James Sardo, Larry Edwards and Patricia Jacobsen, each of whom is independent of the Issuer and "financially" literate within the meaning of NI 52-110. The audit committee is responsible for the oversight and supervision of the accounting and financial reporting practices and procedures of the Issuer, monitoring the adequacy of internal accounting controls and procedures, reviewing the quality and integrity of financial statements of the Issuer and the oversight of the Issuer's enterprise risk management framework. The independent auditors of the Issuer report directly to the audit committee. In addition, the audit committee is responsible for reviewing and approving the auditors' audit plan and for recommending to the board of directors the selection of independent auditors of the Issuer. The charter of the audit committee is attached hereto as Appendix "A".

Relevant Education and Experience of Audit Committee Members

The following is a brief summary of the education or experience of each member of the audit committee that is relevant to the performance of his or her responsibilities as a member of the audit committee, including any education or experience that has provided the member with an understanding of the accounting principles used by the Issuer to prepare its annual and interim financial statements:

Name of Audit Committee Member	Relevant Education and Experience
Wayne M.E. McLeod (Chair)...	Mr. McLeod is a FCA and spent 12 years as an audit partner of Thorne Riddell and served on the CICA Audit Research Committee for three years in the 1970s.
The Honourable Brian Tobin	Mr. Tobin has served on the audit committee of other public company boards since 2002 and has served as a director on other public company boards for the past four years. He also completed the Director Education Program with the ICD Corporate Governance College at the University of Toronto. As a Minister and Premier, Mr. Tobin was involved in establishing budget processes.
V. James Sardo..	Mr. Sardo holds a MBA and as a former CEO of numerous public companies or their subsidiaries has had CFOs reporting to him. In addition, he serves on the audit committee of other public company boards.
Larry Edwards …………………………………………………	Mr. Edwards holds a MBA and was the President and CEO of a NYSE-listed public company.
Patricia Jacobsen ……………………………………………….	Ms. Jacobsen holds a BA and has completed two of the four modules of the Directors' Education Program of the Institute of Corporate Directors, including the financial module. As a provincial deputy minister and a CEO of two companies, Ms. Jacobsen had CFOs reporting to her. She currently serves on one other audit committee.

Non-Audit Services

The audit committee has adopted specific policies and procedures for the engagement of external auditors for all services, including non-audit services. In particular, the audit committee is required to pre-approve the appointment of the auditor for any non-audit service to be provided to the Issuer or to any subsidiary of the Issuer; provided that it is not required to approve any service that is prohibited under the rules of the Canadian Public Accountability Board or the Independence Standards of the Canadian Institute of Chartered Accountants. Before the appointment of the auditor for any non-audit service, the audit committee will consider the compatibility of the service with the auditor's independence.

The audit committee may delegate to one or more members the authority to pre-approve the appointment of the auditor for any non-audit service to the extent permitted by applicable law. The pre-approval of non-audit services by any member to whom authority has been delegated must be reported to the full audit committee at its first scheduled meeting following such pre-approval.

External Auditor Service Fees

The following table summarizes the Audit, Audit Related, Tax Related and Other Fees (excluding expenses and taxes) of the Issuer's external auditor for the last two fiscal years:

	Fiscal 2011	Fiscal 2010
Audit Fees	C $512,869	C $579,523
Audit-Related Fees	C $289,265 (1)	C $145,650 (2)
Taxation Fees	C $260,443 (3)	C $176,316 (4)
All Other Fees	C $85,522 (5)	C $0

(1) The 2011 fees related to technical analyses of various items relating to IFRS (CS50,000), fees related to the Rights Offering (C$225,835) and a fee levied for the Canadian Public Accountancy Board and paid through the Issuer's external auditor based on the Issuer's publicly reported audit fees (the "CPAB Fee") (C$13,430).

(2) The 2010 fees related to technical analyses of various items in preparation for IFRS (C$121,200), fees for the audit of IT controls (C$6,450) and a CPAB Fee (C$18,000).

(3) The 2011 fees included services related to review of tax filings (C$50,433), consultation and various tax studies (C$81,507) and consultation and analyses related to governmental taxation audits (C$128,503).

(4) The 2010 fees include services related to U.S. tax return preparation and various tax studies conducted (C$143,191) and consultation and analyses related to governmental taxation audits (C$33,125).

(5) The 2011 fees related to miscellaneous non-audit services provided in respect of the Rights Offering.

Audit Committee Oversight

At no time since the commencement of the Issuer's most recently completed fiscal year has a recommendation of the audit committee to nominate or compensate an external auditor not been adopted by the board of directors.

Risk Management

Risk management practices have been part of New Flyer's regular business operations to help identify and manage risks. The Company has enhanced risk management practices by systematically guiding risk identification and management activities through a disciplined and continuous framework. New Flyer's process focuses on the identification of risks, the assessment of those risks and the mitigation of risks associated with the achievement of the Company's strategic objectives. The alignment of risks has been enhanced across the Company while taking into account both internal and external risk factors. The Company is in the process of establishing a formal risk policy and continues to formulate risk appetite and tolerances. In order to support management's commitment to enhancing risk management practices and enhanced accountability, the Company continues to deploy risk assessment training to employees involved in the risk management processes. The Company is also enhancing tools to strengthen the risk identification and management process and to enhance the transparency of the results of ongoing risk assessments and mitigation strategies. The Company's risk management program is managed through an executive level risk committee in conjunction with the Internal Audit department.

RISK FACTORS

An investment in the Shares, the IDSs (and the Subordinated Notes) involves a number of risks. The risks described below are not the only risks facing the Company. Additional risks and uncertainties not currently known or that are currently considered to be immaterial may also materially and adversely affect the Company. If any of these risks actually occur, the business, financial condition, results of operations and cash flows of the Company and the amount of cash available for distribution to investors could be adversely affected, in which case the trading prices of the Shares, the IDSs and the Subordinated Notes would decline.

Risks Related to the Business of the Company

Ability to successfully execute strategic plans and maintain profitability

New Flyer's future operating results will depend on a number of factors, including its ability to successfully execute its strategic plans. The Company's past results may not be indicative of its future prospects and there is no assurance that the Company will sustain or grow profitability in future periods. The Company's capital structure may inhibit its ability to successfully achieve its strategic plans by limiting or preventing the Company from obtaining additional capital (either by borrowing funds from its lenders or raising equity capital in the capital markets).

In addition, the successful execution of the Company's strategic plans may require additional employees, additional operating and financial systems and additional financial resources. There is no assurance that the Company will be able to hire and train qualified employees (or do so on a timely basis), that the Company will be able to expand operations and systems to the extent, and in the time required, or that the Company will be able to fund such strategic plans, either internally through operations, through the use of available credit or through the capital markets. There is no assurance that the Company will be able to effectively execute and manage its strategic plans and any future growth, and any failure to do so could have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

Competition in the heavy-duty transit bus industry

There is significant competition and excess production capacity in the heavy-duty transit bus industry in Canada and the United States. Although New Flyer is the current market leader, its principal competitors (among which are Gillig, Daimler Buses North America, Volvo Bus Corporation and NABI) may gain market share and new competitors may emerge in the industry, and there can be no assurance that New Flyer will maintain its current leading position. There is also strong competition in the aftermarket parts and service markets where the Company sells parts and services to transit agencies. New Flyer is the only publicly-traded heavy-duty transit bus manufacturer in the United States and Canada and is subject to certain legal disclosure requirements. These disclosure requirements may put New Flyer at a competitive disadvantage. In addition, the recent recession, the funding pressures on transit agencies for capital purchases and operating funds and the resulting decrease in demand for replacement buses and aftermarket parts and services, have resulted in extremely aggressive pricing among competitors in the heavy-duty transit bus industry.

In general, there can be no assurance that the Company will be able to compete successfully against its current or future competitors or that such competition will not have a material adverse effect on the Company's financial condition and results of operations and the amount of cash available for distribution to investors.

Funding may not continue to be available to the Company's customers at current levels or at all

The Company's principal customers are municipal and other local transit authorities that rely on funding from various levels of government to purchase heavy-duty transit buses. There can be no assurance that this funding will continue to be available at current levels, on the same terms or at all. Eighty percent of the total eligible funding for purchases of new heavy-duty transit buses in the United States is provided by the federal government through allocations to the FTA. The most recent legislation that provided funding for public transit expired on September 30, 2009. Congress has kept transportation aid flowing through a series of short-term extensions. The current extension of the legislation expires on June 30, 2012. Republican leaders and the Transportation and Infrastructure Committee are working to bolster support for a modified version of their five year, surface transportation authorization bill. If the U.S. Congress cannot pass a bill by June 30, 2012 another extension of the authorizing law will be required to allow funding of the FTA to continue. The House Ways and Means Committee has proposed to eliminate the use of motor fuel tax revenues for public transportation, revenues that have been dedicated to public transportation for nearly 30 years. The transit industry strongly opposes this proposal and is urging Congress to leave fuel tax revenues untouched. There can be no assurance that legislation authorizing funding to transit authorities will continue to be enacted or that governmental policy in the United States and Canada will not change in a manner that favours funding of forms of public transit other than buses. Funding to transit agencies for bus service operating costs is primarily provided by provincial, state and local tax collections. Due to recent economic conditions, especially in the United States, funding to cover such operating costs is under increasing pressure, with some transit agencies having had to lay off transit employees, reduce transit service and/or reduce spending on bus maintenance and aftermarket parts. Any decline in or changes in the terms of governmental and local funding for purchases of new heavy-duty transit buses and/or purchases of aftermarket parts or services could have a material adverse effect on the Company's financial condition and results of operations and the amount of cash available for distribution to investors.

The Company may incur material losses and costs as a result of product warranty costs, recalls and remediation of buses

The Company is subject to product warranty claims in the ordinary course of its business. New Flyer provides a 12-year (and in some circumstances, 18-year) warranty on its bus structure and a one to five year warranty on certain other bus components. Certain other extended warranties for major subsystems such as engines, transmissions, axles and air conditioning are generally purchased for the customer from the component supplier. The Company prices ongoing warranty costs into its bus purchase contracts. If the Company produces poor quality products, develops new products with deficiencies or receives defective materials or components, it may incur material unforeseen costs in excess of what it has provided for in its contracts or reserved in its financial statements. The Company is currently aware of warranty issues regarding rear bus structures and certain engines which may result in unforeseen material warranty costs. In addition, the Company may not be able to enforce warranties and extended warranties received or purchased from its suppliers if such suppliers refuse to honour such warranties or go out of business. Also, a customer may choose to pursue remedies directly under its contract with New Flyer over enforcing such supplier warranties. In such a case, New Flyer may not be able to recover its losses from the supplier. The Company is also periodically subject to product warranty claims from its customers due to bus fires. Such fires are common in the transit bus industry, particularly in the engine compartment area due to the restricted size of the compartment, the nature of the components used in the manufacture of buses and the arduous operating life cycles of buses.

The Company is also potentially subject to recalls of its products from customers to cure manufacturing defects or in the event of a failure to comply with customers' order specifications or applicable regulatory standards. The Company is also potentially subject to recalls made by the suppliers of components or parts which the Company purchased and incorporated into buses. The Company may also have to remedy or retrofit buses in the event that an order is not built to a customer's specifications or where a design error has been made. Significant warranty claims, retrofit and remediation costs or product recalls could have a material adverse effect on the Company's financial condition and results of operations and the amount of cash available for distribution to investors. Moreover, the adverse publicity that may result from a product warranty claim, product remediation or retrofit or product recall or perceived or actual defect with the Company's products could have a material adverse effect on the Company's ability to successfully market and sell its products. See "Description of the Business — Product Warranty and Other Contractual Provisions".

The Company may incur material losses and costs as a result of product liability claims

The Company faces an inherent risk of exposure to product liability claims if the use of its products result, or are alleged to result, in personal injury and/or property damage. If the Company manufactures a defective product or if bus engine component fires result in damages that are not covered by warranty provisions, it may experience material product liability losses in the future. In addition, the Company may incur significant costs to defend product liability claims. The Company could also incur damages and significant costs in correcting any defects, lose sales and suffer damage to its reputation. The Company's product liability insurance coverage may not be adequate for any liabilities it could incur and may not continue to be available on terms acceptable to it. Significant product liability claims could have a material adverse effect on the Company's financial condition and results of operations and the amount of cash available for distribution to investors. Moreover, the adverse publicity that may result from a product liability claim or perceived or actual defect with the Company's products could have a material adverse effect on the Company's ability to successfully market its products.

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 they leave the Company

The success of the Company's business strategy and its ability to operate profitably depend on the continued employment of its senior management team. The loss of the services of one or more of these key executives could have a material adverse effect on the Company. There can be no assurance that the Company will be able to retain its existing senior management, attract additional qualified executives or adequately fill new senior management positions or vacancies created by expansion or turnover.

The Company may not be able to successfully renegotiate collective bargaining agreements when they expire and may be adversely affected by labour disruptions and shortages of labour

The Company is subject to the risk of work stoppages and other potential labour relations issues because its workforce is highly unionized. Approximately 64% of the Company's employees are represented by unions under four collective bargaining agreements. The collective bargaining agreements between the Company and each of the unions representing the production unit employees and the inspection unit employees at the Company's Winnipeg facility expires on March 31, 2012. The Company and the union leadership representing these two bargaining units are currently negotiating a new collective agreement. Collective agreements with the unionized employees in the St. Cloud, Minnesota and Crookston, Minnesota plants expire March 31, 2013 and December 31, 2015, respectively. The Company may be unable to successfully negotiate new collective bargaining agreements for these employees. Any labour disruption could, depending on the operations affected and the length of the disruption, have a material adverse effect on the Company's financial condition and results of operations and the amount of cash available for distribution to investors. Labour relations problems and work stoppages could also occur at other companies upon which the Company is dependent for raw materials, components or services. The Company is also subject to the risk that sufficient skilled and unskilled labour may not exist in and around its locations. Such occurrences could result in a significant loss of production and revenue and have a material adverse effect on the Company's financial condition and results of operations and the amount of cash available for distribution to investors.

Absence of fixed term customer contracts and customer termination for convenience

As is general industry practice, New Flyer does not typically enter into long term supply agreements with its customers. Individual transit authorities only undertake significant procurement of new buses once every few years. Customers may, without notice or penalty, terminate their relationship with the Company at any time. Even if customers should decide to continue their relationship with the Company, there can be no guarantee that they will purchase the same volume of products as in the past or that they will pay the same price for those products as they have in the past. Moreover, many customer contracts include options to purchase buses in the future and the Company's order book is increasingly represented by options as opposed to firm orders. Although New Flyer actively seeks to grow its option backlog as options represent a significant source of potential orders for the Company, there can be no assurance that customers will continue to exercise such options at all or at the same rate in the future. In addition, customer contracts in the heavy-duty transit bus industry generally give transit authorities the right to terminate the contract for convenience (or without any reason). As such, customers may, without notice, terminate their relationship with the Company during the term of the contract. Any loss of customers, or decrease in the volume purchased or price paid by them for products, could have a material adverse effect on the Company's financial condition and results of operations and the amount of cash available for distribution to investors.

United States content bidding preference rules may create a competitive disadvantage

New legislation in late 2011 in the State of California permits California agencies to grant bidding preference to a bidder if the buses it is proposing exceed the minimum United States content requirements under the United States federal "Buy America" regulations. Although management does not believe that the US content of competitors' buses are materially different from the US content of New Flyer buses, no such data is publicly available and there can be no assurance that competitor's buses don't contain a materially higher percentage of US content than New Flyer's buses. If this occurs, it may create a competitive bidding advantage for such competitors in the State of California under procurements utilizing these bid preference rules. In such event, the Company's consistent inability to win awards under these bid preference rules may have an adverse effect on the Company's financial condition and results of operations and the amount of cash available for distribution to investors. See "Description of the Business — Legal and Regulatory Matters — United States Content Bidding Preference".

Current requirements under "Buy America" legislation may change and/or become more onerous or suppliers' "Buy America" content may change

Manufacturers of new buses must comply with "Buy America" legislation in order for new bus purchases to qualify for United States federal funding. "Buy America" legislation requires that buses purchased with federal funds contain a minimum of 60% United States content by cost and that final assembly take place in the United States. There can be no assurance that these "Buy America" requirements will not change and/or become more onerous. In early 2011, a bill was introduced in the United States House of Representatives to strengthen Buy America requirements applicable to, among other things, airports, highways, high-speed rail, trains and transit. The bill, if enacted as then proposed, would require that buses purchased with federal funds contain a minimum of 80% United States content by cost for obligations made between January 1, 2012 to December 31, 2012, increasing to 100% United States content by cost for obligations made after December 31, 2013 (compared to the current 60% requirement). This bill has not been enacted. However, in early 2012 an amendment to a pending transportation reauthorization bill that would increase United States content requirements for heavy duty transit buses from 60 to 100% over a five-year period was unsuccessfully proposed. The same or similar attempts to amend the transportation reauthorization bill may be renewed. In addition, should "Buy America" requirements become less stringent, foreign competitors without significant U.S. operations may be able to penetrate the United States market and gain market share. Also, suppliers may change the source of the components or subcomponents comprising their products thereby potentially reducing the "Buy

America" content of their products. Any changes in U.S. Buy America legislation or the reduction of "Buy America" content of suppliers' products may have a material adverse effect on the Company's financial condition and results of operations and the amount of cash available for distribution to investors. See "Description of the Business — Legal and Regulatory Matters — Rules of Origin (Buy America) Legislation".

Current requirements under the Ontario government's or Canadian transit agencies' Canadian content policy may change and/or become more onerous

Manufacturers selling new buses to transit customers in Ontario, Canada that use provincial funding to purchase such buses must comply with the Ontario government policy requiring that such transit vehicles must contain a minimum 25% Canadian content by cost. There can be no assurance that these "Canadian content" requirements will not change and/or become more onerous or that other provinces or transit agencies (such as the TTC) will adopt or enact similar or more onerous policies or legislation that have similar effect. Many major and/or high-cost components such as engines, axles, transmissions, heating and air conditioning units, seats, are not manufactured in Canada and are not considered "Canadian content" in accordance with these policies. In the event that the "Canadian content" requirement increases or additional components or subcomponents cannot be sourced in Canada, the Company may not be able to comply with the policy requirements and will not be able to sell buses to customers to which these policies apply. This may have a material adverse effect on the Company's financial condition and results of operations and the amount of cash available for distribution to investors. See "Description of the Business – Legal and Regulatory Matters – Ontario Policy Regarding Canadian Content" and "Description of the Business – Legal and Regulatory Matters – Policy of the Toronto Transit Commission".

Production delays may result in liquidated damages under the Company's contracts with its customers

Bus manufacturing contracts in the heavy-duty transit bus industry typically include liquidated damages provisions that result in monetary penalties on a per bus per day basis when buses are not delivered to the customer by the deadline specified in the contract. Although the Company actively manages such deadlines, the Company may incur monetary penalties as a result of production interruptions or otherwise, and such monetary penalties may have a material adverse effect on the Company, its results of operations and the amount of cash available for distribution to investors.

Currency fluctuations could adversely affect the Company's financial results or competitive position

New Flyer reports its results in United States dollars. Fluctuations in the exchange rate between the United States dollar and Canadian dollar will affect the Company's reported results. However, the impact of changes in foreign exchange rates on the Company's reported results differs over time depending on whether the Company is generating a net cash inflow or outflow of Canadian dollars. This is largely dependent on the Company's revenue mix by currency as operating costs denominated in Canadian dollars have been relatively stable on a per equivalent unit basis. During 2011, the Company generated a net cash inflow of Canadian dollars. During 2012, based on production plans, as of the date hereof, management expects the Company to generate a net cash outflow of Canadian dollars. In addition, New Flyer competes with United States manufacturers and may be less competitive as the Canadian dollar strengthens relative to the United States dollar. To the extent New Flyer has borrowings that are denominated in Canadian dollars, its results of operations are also negatively affected by a strengthening in the Canadian dollar compared to the United States dollar.

The Company may not be able to maintain performance bonds or letters of credit required by its contracts or obtain performance bond and letters of credit required for new contracts

Many municipalities and local transit authorities require suppliers to obtain performance bonds from surety companies or letters of credit to ensure that suppliers will perform under purchase agreements. In 2011, approximately 26% of bus manufacturing contracts required performance guarantees, which generally range from 5% to 25% of contract value. The surety bonding market does not provide for committed bonding facilities. Surety companies provide limits on the maximum facility they will provide. Surety companies issue bonds on an as-needed basis and take into account current financial performance and the state of the surety market in making their credit decisions. In order to ensure continued performance guarantee availability, New Flyer has entered into a letter of credit sub-facility as part of its Credit Facility in order to have letters of credit issued to either backstop surety bonds or directly to municipalities and local transit authorities. There can be no assurance that the Company's customers will not require additional performance security in the future or that either letters of credit or performance bonds will continue to be available to the Company as security for performance of its contracts or, if available, on favourable terms (including cost) to the Company. If the amount of performance security the Company is required to provide significantly increases or if adequate performance security is not available or if the terms or costs of such security are too onerous, the Company may lose existing contracts and may not be able to bid on many new contracts, which could result in a material adverse effect on the Company's financial condition and results of operations and the amount of cash available for distribution to investors. See "Description of the Business — Bonding Requirements".

Third party debt service obligations may have important consequences to the Company

The Company has third party debt service obligations under the Credit Facility and other agreements with third parties. The degree to which the Company is leveraged could have important consequences to investors, including: (i) a portion of the Company's cash flow from operations will be dedicated to the payment of the principal of and interest on the indebtedness, thereby reducing funds available for future operations and distribution to investors, (ii) certain of the Company's borrowings are at variable rates of interest, which exposes the Company to the risk of increased interest rates, and (iii) the Company's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited. The Company's ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control. These factors might inhibit the Company from refinancing the indebtedness under the Credit Facility at maturity.

Interest rates could change substantially, materially impacting the Company's profitability

New Flyer's borrowings under the Credit Facility are at variable rates of interest and expose the Company to interest rate risk. New Flyer's attempts to mitigate this risk through interest rate hedges or swaps could become materially more expensive if interest rates increase or become more volatile. If the cost of hedging interest rates increases, the Company's debt service obligations on its variable rate indebtedness would increase even though the amount borrowed remained the same, and the Company's net income and cash available for servicing its other indebtedness would decrease. The Company has entered into an interest rate swap until April 2014, which fixes the interest rate on $90 million of the term Credit Facility at 1.90% plus the applicable credit spread.

The Company may not be able to generate the necessary amount of cash to service its existing debt, which may require the Company to refinance its debt

The Company's ability to pay principal and interest on its Credit Facility and other debt obligations will depend on its future financial performance. The Company's ability to generate cash will depend on many factors that may be beyond its control, including general economic, financial and regulatory conditions. If the Company cannot generate enough cash flow in the future to service its debt, it may need to refinance all or a portion of its debt, obtain additional financing (on terms that may be less favourable than existing financing terms) or sell assets. The Company might not be able to implement any of these strategies on satisfactory terms or on a timely basis, if at all. If the Company is unable to meet its debt service obligations or comply with its covenants, a default under its debt agreements would result.

Availability of future financing

Management expects that the Company's principal sources of funds will be cash generated from its operating activities and borrowing capacity remaining under the Credit Facility and/or from future securities offerings. Management believes that these funds will provide New Flyer with sufficient liquidity and capital resources to meet its current and future financial obligations, as well as to provide funds for its financing requirements, capital expenditures and other needs for the foreseeable future. Despite management's expectations, however, New Flyer may require additional equity or debt financing to meet its financing requirements. This financing may not be available when required or may not be available on commercially favorable terms or on terms that are otherwise satisfactory to the Company. The Credit Facility matures in April 2014. While the Company expects to be able to refinance the Credit Facility prior to its maturity, if Company is unable to successfully refinance its Credit Facility, the Company may not have sufficient liquidity and capital resources to meet its financial obligations.

Dependence on limited sources or unique sources of supply

New Flyer does not typically enter into long-term agreements with its suppliers. Certain raw materials and components used in the heavy-duty transit bus manufacturing industry are obtained from a limited group of suppliers. In some cases, there is only a single source of supply of components to the industry, such as engines. In other cases, such as the supply of transmissions, axles, heating and air conditioning units and fiberglass and structural steel tubing, the Company's raw materials and components are not readily available from alternative sources of supply, may be available in limited supply or a particular supplier may be specified by a customer and such supplier may have limited or no supply of such raw materials or components. The Company's reliance on a sole supplier, limited groups of suppliers or raw materials and components that may be available in limited supply and purchasing components from suppliers that have been specifically named by customers involves several risks, including increased risk of inability to obtain adequate supplies (due to accidents, strikes, shortage of raw materials or other events affecting a supplier, including a supplier discontinuing to supply a product or a component), costs arising from poor quality of the materials or components supplied, increased risk of being forced to suspend production of certain of its products, and reduced control over pricing and timely delivery. Although the availability, timeliness, quality and pricing of deliveries from the Company's suppliers have historically been acceptable and although management believes that additional sources of supply should be available on an acceptable basis, there are no assurances that this dependence on a sole supplier or a limited group of suppliers or on certain raw materials and components that may be available in limited supply will not have a materially adverse effect on the Company's financial condition and results of operations and the amount of cash available for distribution to investors.

The Company's profitability can be adversely affected by increases in raw material and component costs

Raw materials and components represent a significant majority of New Flyer's production cost structure. The Company's operating results may be affected by the cost of carbon and stainless steel, aluminum, copper, resins and oil-based products that are the primary raw material and component inputs for its products. Although certain raw material and component prices are fixed on a quarterly basis, or for longer periods if possible, in the Company's contracts with its suppliers, if raw material or component prices increase significantly, there may be a resulting increase in the Company's supply costs and it may not be able to pass on these higher costs to its customers and the Company's profit margins could be materially adversely affected. Increases in the prices paid for raw materials and components could also impair the Company's ability to compete and have a material adverse effect on the Company's financial condition and results of operations and the amount of cash available for distribution to investors.

Dependence on supply of engines that comply with EPA emission regulations

The United States EPA has mandated additional stringent emission standards that will occur for 2013. To the knowledge of the Company, only one engine manufacturer sells diesel engines that comply with current 2010 emissions requirements for use in heavy-duty transit buses in North America. Although the Company has a long-standing relationship with this engine manufacturer, and management anticipates that this supplier will be able to successfully design and manufacture engines that will comply with the 2013 emissions requirements, there is no assurance that this will occur. The failure of this sole engine manufacturer (or any new engine supplier that may enter the transit bus engine market prior to 2013) to supply the heavy-duty transit industry with 2013-compliant engines on or before the date such new standards are effective will have a material adverse effect on the Company's financial condition and results of operations and the amount of cash available for distribution to investors.

Acquisition risk

The Company will continue to identify, develop and acquire suitable acquisition targets in pursuit of its strategic plans. While management intends to be careful in selecting businesses to acquire, acquisitions inherently involve a number of risks, including, but not limited to, the possibility that the Company pays more than the acquired assets are worth; the additional expense associated with completing an acquisition; the difficulty of assimilating the operations and personnel of the acquired business; the challenge of implementing uniform standards, controls procedures and policies throughout the acquired business; the inability to integrate, train, retain and motivate key personnel of the acquired business; the potential disruption to the Company's ongoing business and the distraction of management from the Company's day-to-day operations; the inability to incorporate acquired businesses successfully into the Company's existing operations; and the potential impairment of relationships with New Flyer's employees, suppliers and customers. If any one or more of such risks materialize, they could have a material adverse effect on the Company's business, financial condition, liquidity and operating results and the amount of cash available for distribution to investors.

In addition, the Company may not be able to maintain the levels of operating efficiency that the acquired company had achieved or might have achieved had it not been acquired by New Flyer. Successful integration of the acquired company's operations would depend upon the Company's ability to manage those operations and to eliminate redundant and excess costs. As a result of difficulties associated with combining operations, the Company may not be able to achieve the cost savings and other benefits that it would hope to achieve with the acquisition. Any difficulties in this process could disrupt the Company's ongoing business, distract its management, result in the loss of key personnel or customers, increase its expenses and otherwise materially adversely affect the Company's business, financial condition, liquidity and operating results and the amount of cash available for distribution to investors.

Further, inherent in any acquisition there is risk of liabilities and contingencies that the Company may not discover in its due diligence prior to the consummation of a particular acquisition, and the Company may not be indemnified for some or all of these liabilities and contingencies. The discovery of any material liabilities or contingencies in any acquisition could also have a material adverse effect on the Company's business, financial condition, liquidity and results of operations and the amount of cash available for distribution to investors.

Development and testing of new products

The Company may not be able to successfully design, develop or test new products or improvements to existing product lines in order to effectively compete with competitors. There may be no demand by customers to purchase newly developed products, there may be risks and unbudgeted costs associated with launching a new product into the market place and the Company may not be able to recoup research and development costs, all of which may be material. In addition, there may be material and unforeseen warranty costs related to new products that management did not foresee or adequately price into the bus purchase contracts for such products. Further, there may be no testing facilities available to test the Company's new products to certain governmental or customer requirements, standards or specifications. For example, in March 2012 the Company was advised by the only company in the heavy-duty transit bus industry which conducts shaker table testing that would no longer be conducting shaker table tests. The Company is actively searching for another supplier to conducts shaker table testing.

Development of competitive products or technology

The Company may not be able to prevent a competitor from copying its new and existing products or technologies. If a competitor copies the Company's products or develops an equivalent or superior product or technology, there could be a material adverse effect on the Company's financial condition and results of operations and the amount of cash available for distribution to investors. If a competitor develops a superior product or technology, there can be no assurance that New Flyer would be able to manufacture a similar or competitive new product or technology and/or effectively compete with manufacturers developing such products or technologies.

The Company's operations are subject to risks and hazards that may result in monetary losses and liabilities not covered by insurance or which exceed its insurance coverage

The Company's business is generally subject to a number of risks and hazards, including pollution and other environmental risks and changes in the regulatory environment. Although the Company maintains general liability insurance and property and business interruption insurance, because of the nature of its industry hazards, it is possible that liabilities for occurrences such as pollution, property and equipment damage or injury or loss of life arising from a major or unforeseen occurrence may not be covered by the Company's insurance policies or could exceed insurance coverages or policy limits. Further, insurance may not be available to the Company at reasonable rates in the future. Any significant interruption in its operations could materially adversely affect the Company's financial condition and results of operations and the amount of cash available for distribution to investors.

The Company may be adversely affected by rising insurance costs

The Company's cost of maintaining liability, personal injury, property damage and workers' compensation insurance is significant. The Company could experience materially higher insurance premiums as a result of adverse claims experience or because of general increases in premiums by insurance carriers for reasons unrelated to its own claims experience. Generally, the Company's insurance policies must be renewed annually. The Company's ability to continue to obtain insurance at affordable premiums also depends upon its ability to continue to operate with an acceptable safety record. A significant increase in the number or value of claims against the Company, the assertion of one or more claims in excess of its policy limits or the inability to obtain adequate insurance coverage at acceptable rates, or at all, could have a material adverse effect on the Company's financial condition and results of operations and the amount of cash available for distribution to investors.

Dependence on management information systems

New Flyer depends on its management information systems in each stage of the manufacture and sale of its products, including entering the customer's order, setting the production schedule, planning material and supply requirements, controlling manufacturing activities and providing aftermarket parts and support. In addition, its management information systems form the basis of its financial reporting. In the event that irreparable damage were to be caused to its information systems and databases (including to its back-up systems) or that the information contained in its management information systems were lost or could not be accessed in a timely manner, there could be a material adverse effect on the Company's financial condition and results of operations and the amount of cash available for distribution to investors.

The Company may be subject to claims and liabilities under environmental, health and safety laws

The Company operates in a highly regulated environment. Its facilities and operations are subject to extensive and constantly evolving federal, provincial, state and local environmental and health and safety laws, including laws governing emissions or discharges into soil, water and air, including noise and odours, which could result in remediation obligations, the generation, use, handling, storage, transportation and disposal of regulated substances, and health and safety matters.

New Flyer is required to have and make certain governmental permits, approvals and registrations related to environmental and health and safety matters. Permits or approvals may be subject to denial, revocation or modification depending on the particular circumstances. Failure to obtain or comply with the conditions of such permits or approvals may adversely affect operations and may also subject New Flyer to penalties. In addition, the Company may be required to obtain additional permits or approvals, which may result in material costs, including capital expenditures. There can be no assurance that New Flyer will be able to meet all applicable regulatory requirements without incurring such additional costs.

The Company may incur substantial costs to comply with environmental and health and safety law requirements. The Company may also incur substantial costs for liabilities arising from past releases of, or exposure to regulated substances. In addition, the Company may discover currently unknown environmental problems or conditions. There can be no assurance that New Flyer's continued compliance with environmental and health and safety laws, the discovery of currently unknown environmental problems or conditions, changes in environmental and health and safety laws or increased enforcement of same, or other unanticipated events, will not give rise to claims that may involve material expenditures by or liabilities for the Company.

Complying with environmental and health and safety laws has added and will continue to add to the Company's operating costs. While the Company believes that it is in compliance in all material respects with such laws, there can be no assurance that it will not be materially impacted by costs, liabilities or claims with respect to its operations under existing laws or those that may be adopted in the future, or increased enforcement of same. If the present level of price competition continues, it may become increasingly difficult for the Company and other manufacturers of heavy-duty transit buses to recover such costs and, accordingly, lower margins may result.

The Company may incur costs in connection with provincial, state or federal regulations relating to axle weight restrictions and bus lengths

New Flyer is required, in its customer contracts, to comply with applicable provincial, state and federal regulatory requirements. Certain types of the Company's buses do not currently comply with regulations governing maximum axle weight or maximum length in certain jurisdictions. The Company may incur material costs as a result of product warranty or contractual claims as a result of existing buses or new buses that are manufactured and that do not comply with local axle weight or length standards. To date, only a few of New Flyer's customers have required that the Company reconfigure its buses to comply with local axle weight regulations. However, the Company may incur material costs in the future if it is required to redesign new buses to comply with axle weight or length standards.

Catastrophic events may lead to production curtailments or shutdowns

The Company's facilities are subject to the risk of catastrophic loss due to unanticipated events such as floods, fires, explosions or violent weather conditions. Unexpected interruptions in the Company's production capabilities would adversely affect its productivity and results of operations. Some customer contracts do not have force majeure provisions and if there are unexpected interruptions or long-term disruptions to the production and delivery of buses due to catastrophic losses or unanticipated events, liquidated damages payable to customers may be significant. Moreover, any interruption in production capability may require the Company to make significant capital expenditures to remedy the problem, which would reduce the amount of cash available for its operations. The Company's insurance may not cover its losses. In addition, longer-term business disruption could harm the Company's reputation and result in a loss of customers, which could materially adversely affect the Company's financial condition and results of operations and the amount of cash available for distribution to investors.

Internal controls over financial reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting ("ICFR"), as defined under rules adopted by the Canadian Securities Administrators. ICFR were designed under the supervision of, and with the participation of, the Chief Executive Officer and the Chief Financial Officer. 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 and IFRS. Management, under the supervision of the CEO and CFO, evaluated the design of the Company's ICFR as of January 1, 2012, in accordance with the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and concluded that the Company's ICFR was effective. ICFR, no matter how well designed, have inherent limitations. Therefore, ICFR can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

Disclosure controls

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

Risks Related to the Capital Structure

U.S. IRS Circular 230 Disclosure

TO ENSURE COMPLIANCE WITH U.S. INTERNAL REVENUE SERVICE CIRCULAR 230, HOLDERS OF IDSs, SUBORDINATED NOTES OR SHARES ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES IN THIS COMMUNICATION IS NOT INTENDED OR WRITTEN TO BE USED OR RELIED UPON, AND CANNOT BE USED OR RELIED UPON BY SUCH HOLDERS, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON SUCH HOLDERS UNDER THE CODE; AND (B) EACH HOLDER OF AN IDS, SUBORDINATED NOTES OR SHARES SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

NFI is dependent on its subsidiaries for all cash available for distributions

NFI is dependent on the operations and assets of its subsidiaries. Cash distributions to the holders of IDSs, Shares and Subordinated Notes will be dependent on the ability of NFI's subsidiaries to make dividend payments on their shares and the ability of NFI ULC to make interest payments on the Subordinated Notes. The actual amount of cash available for payments to holders of Separate Subordinated Notes and distribution to holders of the IDSs, Shares or Subordinated Notes will depend upon numerous factors relating to the business of the Company, including profitability, changes in revenue, fluctuations in working capital, capital expenditure levels, applicable laws, compliance with contracts and contractual restrictions contained in the instruments governing any indebtedness. Any reduction in the amount of cash available for distribution, or actually distributed, by NFI's subsidiaries will reduce the amount of cash available for NFI ULC to make payments to holders of Subordinated Notes and to NFI to pay dividends on the Shares. While NFI ULC is contractually obligated to make interest payments on the Subordinated Notes, cash dividends by NFI on the Shares are not guaranteed and will fluctuate with the performance of the business of NFI subsidiaries.

A significant amount of the Company's cash is distributed, which may restrict potential growth

Historically, substantially all of the Company's cash generated from operations has been distributed to investors in the form of dividends on the Shares and interest payments on the Subordinated Notes. While the distributions to investors have decreased in connection with the Common Share Conversion, a large portion of the Company's cash flow is expected to continue to be distributed to investors in the form of dividends and interest on the Notes until they remain outstanding. Accordingly, to the extent such distributions are made, the Company's ability to make additional capital and operating expenditures and finance acquisitions would be limited which could restrict the Company's growth.

Payment of Dividends is Not Guaranteed

NFI and its subsidiaries may alter their dividend policies and dividends from these companies, if any, will depend on, among other things, the results of operations, cash requirements, financial condition, contractual restrictions, business opportunities, provisions of applicable law and other factors that the board of directors of each of NFI and its subsidiaries may deem relevant. The directors of these entities, in their discretion, may decrease the level of dividends provided for in their existing dividend policies or discontinue dividends entirely. The Indenture and the Credit Facility contain significant restrictions on

NFI's ability to make dividend payments, including, if NFI ULC defers interest on the Subordinated Notes under the Indenture, restrictions on the payment of dividends until NFI ULC has paid all deferred interest, together with accrued interest thereon. The payment of dividends is also subject to certain limitations under applicable laws.

In addition, NFL Holdings' after-tax cash flow available for dividend and interest payments could be reduced if the Subordinated Notes were treated as equity rather than debt for U.S. federal income tax purposes. In that event, the stated interest on the Subordinated Notes could be treated as a dividend and would not be deductible by NFL Holdings for U.S. federal income tax purposes. NFL Holdings' inability to deduct interest on the Subordinated Notes could materially increase NFL Holdings' taxable income and, thus, NFL Holdings' U.S. federal and applicable state income tax liability. If this were to occur, NFL Holdings' after-tax cash flow available for dividend and interest payments may be reduced.

Subject to restrictions set forth in the Indenture, NFI ULC may defer the payment of interest to holders for a significant period of time

NFI ULC may, subject to certain restrictions, defer interest payments on the Subordinated Notes on four occasions for up to eight months on each occasion. Deferred interest will bear interest at the same rate as the Subordinated Notes. NFI ULC may not be obligated to pay all of such deferred interest until the maturity of the Subordinated Notes, so a holder of IDSs or Subordinated Notes may be owed a substantial amount of deferred interest that will not be due and payable until such time.

Fluctuations in the exchange rate may impact the amount of cash available to the Issuer for distribution

Dividends to holders of Shares and interest payments on the Subordinated Notes are denominated in Canadian dollars. Conversely, a significant portion of the Company's revenue and expenses are denominated in U.S. dollars. As a result, the Issuer is exposed to currency exchange rate risks. Changes in the currency exchange rate between U.S. and Canadian dollars could have a material adverse effect on the Company's consolidated financial condition, results of operations and cash flow and may adversely affect the Issuer's cash distributions to investors.

The Company generates cash flows and earns income in both Canadian dollars and U.S. dollars in the ordinary course. The currency mix of cash flows and earnings depends on the geographic source of orders for heavy-duty transit buses and production and other costs and other factors which vary from period to period. As a result, the Company is exposed to fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar. The distributions that NFL Holdings will make to NFI on the shares of NFL Holdings and the interest payments on the Notes will be paid in Canadian dollars. Based on management's estimates of the Company's Canadian dollar revenues and expenses and resulting cash flows (including the Issuer's distributions on the IDSs issued in connection with the IPO and the Subsequent Offerings and interest payments on the Separate Subordinated Notes) through the end of 2012, management believes that the Company's projected aggregate Canadian dollar cash flows over that period will not be sufficient to satisfy the Issuer's aggregate estimated Canadian dollar obligations over that period as a whole. As a result, management expects that Canadian dollars will be purchased throughout the year. The Company will have temporary surpluses and deficits of Canadian dollar cash flows from time to time during this period. The Issuer intends to implement an active hedging strategy to minimize the effects of these fluctuations during this period. However, there can be no assurance that the Issuer will be able to successfully implement this hedging strategy and actual revenues, expenses and resulting cash flows may vary from management's estimates and such variance may be material.

The Issuer reviews its currency hedging policy on an ongoing basis.

The Company's substantial consolidated indebtedness could negatively impact the business

The Company has a substantial amount of indebtedness. As at January 1, 2012, the Company has total third party indebtedness (including C$58.8 million indebtedness to IDS holders and to holders of the Separate Subordinated Notes issued by NFI ULC) of USD $166.8 million. In addition, the Indenture permits future further indebtedness provided that certain covenants are satisfied.

The degree to which the Company is leveraged on a consolidated basis could have important consequences to the holders of Shares, IDSs and Subordinated Notes, including:

- the Company's ability in the future to obtain trade credit from vendors, performance bonds from surety companies or additional financing for working capital, capital expenditures or other purposes may be limited;

- the Company may be unable to refinance indebtedness on terms acceptable to it or at all;

- a significant portion of the Company's cash flow (on a consolidated basis) is likely to be dedicated to the payment of the principal of and interest on the Company's indebtedness, including the Subordinated Notes, thereby reducing funds available for future operations, capital expenditures and/or dividends on the Shares;

- the Company may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures;

- the Company may be limited in its ability to plan for or react to changes in its business or the industry in which it operates; and

- the Company may be at a competitive disadvantage to its competitors that have less indebtedness.

NFI ULC may not be able to repurchase the Subordinated Notes upon a change of control as required by the Indenture

Upon the occurrence of certain specific kinds of change of control events, NFI ULC will be required to offer to repurchase outstanding Subordinated Notes at amounts greater than their principal amount plus accrued and unpaid interest, if any, to the date of repurchase. However, it is possible that NFI ULC will not have sufficient funds at the time of the change of control to make any of the required repurchases or the restrictions in the Credit Facility may not allow for such repurchases. Failure to purchase tendered Subordinated Notes would constitute a default under the Indenture, which, in turn, would constitute a default under the Credit Facility.

Changes in the Issuer's creditworthiness may affect the value of the Shares, the IDSs, and Subordinated Notes

The perceived creditworthiness of the Issuer, NFL Holdings and the subsidiary that has guaranteed the Subordinated Notes may affect the market price or value and the liquidity of the Shares, the IDSs, and Subordinated Notes.

The restrictive covenants in the Credit Facility and the Indenture could impact the Company's business and affect its ability to pursue its business strategies

The Credit Facility and the Indenture both feature restrictive covenants that limit the Company's ability, among other things, to:

- incur additional indebtedness;
- pay dividends and make distributions in respect of equity interests or to make certain other restrictive payments or investments;
- sell assets;
- consolidate, merge, sell or otherwise dispose of all or substantially all of the Company's assets;
- enter into transactions with the Company's affiliates;
- create liens; and
- enter into new lines of businesses.

In addition, the Credit Facility includes other and more restrictive covenants and prohibits the Company and certain of its affiliates from prepaying its other indebtedness, including NFI ULC prepaying the Subordinated Notes, while debt under the Credit Facility is outstanding. The Credit Facility also requires the Company to achieve specified financial and operating results and maintain compliance with specified financial ratios. The Company's ability to comply with these ratios may be affected by events beyond its control.

A breach of any of the restrictive covenants in the Credit Facility or in the Company's ability to comply with the required financial ratios could result in a default under the Credit Facility. If a default occurs, the lenders under the Credit Facility may elect to declare all borrowings outstanding under that facility together with accrued interest and other fees, to be immediately due and payable which would result in an event of default under the Indenture.

Deferral of interest payments may have adverse Canadian and U.S. federal income tax consequences for holders and may adversely affect the trading price of the IDSs

If interest payments on the Subordinated Notes are deferred, holders may be required to recognize interest income for Canadian federal income tax purposes in respect of the Subordinated Notes before receiving any cash payment of this interest. In addition, a holder will not receive this cash payment if the holder sells the IDSs or the Subordinated Notes, as the case may be, before the end of any deferral period or before the record date relating to interest payments that are to be paid.

If interest payments on the Subordinated Notes are deferred, and if the holders are considered related to the Issuer, the Issuer's interest deduction for U.S. federal income taxes may be deferred, increasing the Issuer's U.S. federal income tax. See also "— The Subordinated Notes may have OID for U.S. federal income tax purposes".

If the Issuer defers interest payments, the IDSs and the Subordinated Notes may trade at a price that does not fully reflect the value of accrued but unpaid interest on the Subordinated Notes. In addition, the existence of the Issuer's right to defer payments of interest on the Subordinated Notes under certain circumstances may mean that the market price for the IDSs or the Subordinated Notes may be more volatile than other securities that do not have these restrictions.

Investment Eligibility and Canadian Federal Income Tax Risks

There can be no assurance that the Shares and the Subordinated Notes will continue to be qualified investments for trust governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts (collectively, "Registered Plans") under the Tax Act. The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments in Registered Plans.

Effective January 1, 2010, the fifth protocol to the Canada-United States Income Tax Convention (1980), which entered into force on December 15, 2008, increased the Canadian withholding on dividends paid or credited or deemed to be paid or credited to Transit Holdings from NFI ULC from 5% to 25%. The increased withholding tax on dividends paid by NFI ULC to Transit Holdings could reduce the amount of cash otherwise available for the payment of dividends by NFI on its Shares which would also reduce the amount of the distributions that IDS holders receive. However, based on its future financial projections, management believes that the increased US federal tax credit expected to result from any increased Canadian withholding tax on dividends paid by NFI ULC to Transit Holdings would likely offset over a period of several years the impact of the increased withholding tax.

On July 20, 2011, the Minister of Finance (Canada) announced tax proposals concerning, among other things, publicly traded stapled securities (the "Stapled Securities Proposals"). The Stapled Securities Proposals would apply in certain circumstances where two separate securities are "stapled" together such that the securities are not freely transferable independently of each other and one or more of the "stapled securities" is listed or traded on a stock exchange or other public market. If enacted as proposed, the Stapled Securities Proposals would deny an interest expense in computing the income of the payer for income tax purposes for interest on the debt portion of such a ''stapled security''. For issuers of income deposit securities, such as NFI and NFI ULC, the Stapled Securities Proposals provide a transition period which generally ends on January 1, 2016. Based on the transition period and the number of current and outstanding IDSs, it is not expected that the Stapled Securities Proposals will have a material impact on NFI ULC.

Future sales or the possibility of future sales of a substantial amount of Shares or Subordinated Notes may impact the price of the Shares, the IDSs and the Subordinated Notes and could result in dilution

Future sales, or the possibility of future sales, of a substantial amount of Shares or Subordinated Notes in the public market could adversely affect the prevailing market price of the Shares, the IDSs and the Subordinated Notes and could impair the Issuer's ability to raise capital through future sales of those securities. Additionally, the issuance of additional Shares or Subordinated Notes may dilute an investor's investment in the Issuer and reduce distributable cash per Share or per IDS.

The Issuer may issue Shares and Subordinated Notes, or other securities from time to time in order to raise capital or as consideration for future acquisitions and investments. If an acquisition or investment is significant, the number of Shares and/or the aggregate principal amount of Subordinated Notes, or the number or aggregate principal amount, as the case may be, of other securities that may be issued may in turn be significant. In addition, the Issuer may also grant registration rights covering those Shares, Subordinated Notes or other securities in connection with any acquisitions or investments.

The U.S. Internal Revenue Service may challenge the characterization of the Subordinated Notes as debt

There can be no assurance that U.S. federal income tax laws and IRS administrative policies will not be changed or interpreted in a manner which adversely affects holders.

No statutory, judicial or administrative authority directly addresses the treatment of the IDSs or the Subordinated Notes, or instruments substantially similar to the IDSs or the Subordinated Notes, for U.S. federal income tax purposes. As a result, the U.S. federal income tax consequences of the purchase, ownership and disposition of IDSs and the Subordinated Notes are uncertain. In light of the absence of direct authority, it cannot be concluded with certainty that the Subordinated Notes will be treated as debt for U.S. federal income tax purposes, and, although the Issuer intends to take the position that the Subordinated Notes are debt for U.S. federal income tax purposes, there can be no assurance that this position will not be challenged by the IRS. The IRS may challenge the position of the Issuer and the affiliated group of corporations joining in filing a consolidated tax return for U.S. federal income tax purposes with NFL Holdings as the common parent (the "NFL Group") and such challenge may be successful. The NFL Group intends to deduct interest on such Subordinated Notes for U.S. federal income tax purposes. However, the IRS and the courts may take the position that the IDSs are a single security classified as equity, or that the Subordinated Notes are properly classified as equity for U.S. federal income tax purposes or that the interest rate on the Subordinated Notes is in excess of an arm's length rate, which could materially adversely affect the amount, timing and character of income, gain or loss in respect of a holder's investment in IDSs or Subordinated Notes, and materially increase the NFL Group's taxable income and, thus, the NFL Group's U.S. federal and applicable state and local income tax liability. This would adversely affect the NFL Group's financial position, cash flow, and liquidity, and could affect NFI ULC's ability to make interest payments on the Subordinated Notes and NFI's ability to pay dividends on the Shares and may affect the NFL Group's ability to continue as a going concern.

In addition, if the Subordinated Notes are reclassified as equity for U.S. federal income tax purposes, Non-U.S. Holders may be subject to U.S. federal withholding or estate taxes with respect to the Subordinated Notes and the NFL Group could be liable for withholding taxes on any interest payments previously made to Non-U.S. Holders. Payments to Non-U.S. Holders would not be grossed-up for or in respect of any such taxes. If, for U.S. federal income tax purposes, the NFL Group is not permitted to deduct from income the interest payable on the Subordinated Notes, the NFL Group may, at its option, redeem all of the Subordinated Notes. The NFL Group's tax deduction for interest may be put at risk in the future as a result of a change in law or administrative or judicial rulings or interpretations issued in the future and, in such event, the NFL Group may need to consider the effect of such developments on the determination of the NFL Group's future tax provisions and obligations.

For the purpose of this Annual Information Form, a "Non-U.S. Holder" means a beneficial owner of IDSs, Subordinated Notes or Shares acquired in the IPO or the Subsequent Offerings, other than an entity or arrangement treated as a partnership for U.S. federal income tax purposes, that for U.S. federal income tax purposes is not:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or of any political subdivision thereof;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or

- a trust (i)(a) the administration over which a court within the United States can exercise primary supervision and (b) all of the substantial decisions of which one or more United States persons have the authority to control or (ii) that validly elects to be treated as a United States person for U.S. federal income tax purposes under applicable U.S. Treasury Regulations.

If NFI ULC is treated as having issued or as issuing Subordinated Notes with significant original issue discount (or OID), the NFL Group may not be able to deduct all of the interest on the Subordinated Notes for U.S. federal income tax purposes

Subordinated Notes, issued in the IPO or the Subsequent Offerings, if the initial allocation of the purchase price of IDSs in any such offering (as applicable) is not respected for U.S. federal income tax purposes and interest is deferred, or issued in a subsequent issuance at a discount to their face value, may have "significant OID" and thus be classified as "applicable high yield discount obligations" for U.S. federal income tax purposes. If any such Subordinated Notes were so treated, a portion of the OID on such notes (which may be deemed to include a portion of the stated interest) would be non-deductible by the NFL Group and the remainder would be deductible only when paid. It is also possible that Subordinated Notes issued in a subsequent issuance will be treated as equity for tax purposes. If any such Subordinated Notes were so treated, the interest payable on such Subordinated Notes would be non-deductible by the NFL Group. Any limit on the NFL Group's ability to deduct interest for tax purposes would have the effect of increasing the NFL Group's taxable income and may adversely affect the NFL Group's cash flow available for interest payments and distributions to the NFL Group's shareholders.

An allocation of IDS purchase price that results in OID may reduce the amount a holder can recover upon an acceleration of the payment of principal due on the Subordinated Notes or in the event of the Issuer's bankruptcy

Under New York and U.S. federal bankruptcy law, if the Subordinated Notes are treated as issued with OID because the allocation of the purchase price is not respected, holders of such Subordinated Notes having OID may not be able to collect the portion of the principal face amount of such Subordinated Notes that represents unamortized OID as of the acceleration or filing date, as the case may be, in the event of an acceleration of the Subordinated Notes or in the event of the Issuer's bankruptcy prior to the maturity date of the Subordinated Notes. As a result, a treatment of the Subordinated Notes as having been issued with OID could have the effect of ultimately reducing the amount such holder can recover from the Issuer in the event of an acceleration or bankruptcy.

The NFL Group or other payor may not properly be able to report OID to the holders of IDSs or Subordinated Notes and to the IRS, and hence may become subject to substantial IRS penalties for such failure

The U.S. Internal Revenue Code of 1986, as amended (the "Code"), generally requires that the payor of interest and OID report to its payees and the IRS the amounts of interest and OID includable in income with respect to such payees, unless an exception to reporting applies. If an issuance of Subordinated Notes was or is issued with OID and there was or is another issuance of Subordinated Notes with a different amount of OID (including no OID) and no exception to reporting applies, the NFL Group or other payor may not properly be able to report the amount of OID to the proper payee because all of the Subordinated Notes are being issued and traded under the same CUSIP number and are held in book-entry form in the name of CDS or its nominee, CDS & Co. As a result, the identity of the holders of the Subordinated Notes issued with OID may not be known, and hence the NFL Group or other payor may not properly be able to report OID to the IRS and to the proper payees.

In such circumstances, the NFL Group or other payor may choose to report such OID to all holders of Subordinated Notes regardless of whether such holders acquired the Subordinated Notes in the IPO, the Subsequent Offerings, or a subsequent issuance, unless an exception to reporting applies. The NFL Group believes that such reporting may satisfy the OID reporting requirements and hence reduce or eliminate any exposure of the NFL Group to penalties for not properly reporting.

As a result, a holder subject to OID reporting may be required to report OID even though such holder purchased Subordinated Notes having no OID unless such holder can establish to the IRS that its Subordinated Notes do not have OID. The IRS might assert that, unless a holder can establish that it is not holding Subordinated Notes with OID, all Subordinated Notes held by such holder will have OID. Investors should consult their own tax advisor to determine the particular U.S. federal income tax consequences of OID, including the proper reporting of OID in these circumstances and the applicability and effect of U.S. state and local tax laws.

The penalties for failure properly to file and report such OID amounts to the IRS are generally capped at $1,500,000 for all such failures during any calendar year, but if such failure is due to the intentional disregard of the filing requirement, the penalty is the greater of $250 for each return with respect to which a failure occurs or 10% of the aggregate amount of items required to be reported correctly. The penalties for failure properly to furnish and report such amounts to a payee of OID is generally capped at $1,500,000 for all such failures during any calendar year, but if such failure is due to the intentional disregard of the filing requirement, the penalty is the greater of $250 for each return with respect to which a failure occurs or 10% of the aggregate amount of items required to be reported correctly. A failure is due to intentional disregard if it is a knowing or willful failure to file timely or to include the correct information, which determination is made based on all the facts and circumstances of the particular case. A failure by the NFL Group or other payor properly to report OID in the case of the IDSs and Subordinated Notes may be treated as due to an intentional disregard, and therefore could result in substantial penalties.

The Subordinated Notes may have OID for U.S. federal income tax purposes

The Subordinated Notes issued in connection with the IPO and the Subsequent Offerings, and Subordinated Notes issued in a subsequent offering, may be treated as having been issued with OID for U.S. federal income tax purposes in certain circumstances, e.g., if the allocation of the purchase price of an IDS to the Subordinated Notes were determined to be too high or if the likelihood of a deferral or non-payment of interest payments on the Subordinated Notes were determined not to be "remote" under the terms and conditions thereof or an interest deferral or non-payment actually occurred.

If a Non-U.S. Holder fails to satisfy certain requirements, such holder generally would be required to include OID in income in advance of the receipt of cash attributable to that income, and such OID may be subject to U.S. federal income or withholding taxes. Investors should consult their own tax advisor to determine the particular U.S. federal income tax consequences of OID, including the applicability and effect of U.S. state and local tax laws.

The requirement to include OID in income in advance of the receipt of cash attributable to that income may discourage U.S. persons and those Non-U.S. Holders subject to U.S. federal income tax on OID from acquiring Subordinated Notes and may adversely affect the trading price and liquidity of the IDSs and Subordinated Notes.

Proposed changes to U.S. tax law may require the NFL Group to restructure the Issuer

On January 27, 2005, the Joint Committee on Taxation recommended changes to U.S. tax law that would cause all non-U.S. wholly-owned entities to be treated as corporations for U.S. tax purposes;

however, no legislation has yet been proposed. Such a change would result in NFI ULC being treated for U.S. tax purposes as a foreign corporation separate from the NFL Group and thus interest payments made by NFI ULC would not be deductible by the NFL Group against its U.S. taxable income and other possible tax consequences could result, including controlled foreign corporation status for NFI ULC. If legislation that implements the Joint Committee's recommendation is subsequently proposed and enacted in a form applicable to NFI ULC, the NFL Group would consider reorganizing its current structure so as to preserve the ability of the NFL Group to claim a deduction for interest paid on the Subordinated Notes. The consequences of such reorganization are uncertain but may trigger a tax liability in NFI ULC. If the NFL Group is unable to or chooses not to reorganize NFI ULC, it could suffer adverse consequences including the inability of the NFL Group to deduct interest payments on the Subordinated Notes against its income, which could have a material adverse effect on cash available for distribution and NFI ULC's ability to pay interest on the Subordinated Notes.

Certain U.S. tax considerations may discourage third parties from pursuing a tender offer or other change of control transaction

Under certain circumstances, Code section 163(j) limits a corporation's deductions for interest paid to related foreign persons exempt from U.S. tax. For these purposes, a corporation and a creditor of the corporation will generally be "related" if the creditor owns, directly or by attribution, more than 50% of the corporation by vote or value. The purchase of an IDS should be treated for U.S. tax purposes as a purchase of both an equity interest and a creditor's interest in the Issuer. As a result, a purchase by any non-U.S. person of the IDSs and Shares representing, directly or by attribution, more than 50% of the Issuer by vote or value could result in the NFL Group's interest deductions being limited with respect to the Subordinated Notes represented by those IDSs or otherwise owned by such person. Furthermore, if any non-U.S. person owns, directly or by attribution, 10% or more of the outstanding voting shares of the Issuer (including Shares owned as part of IDSs), or certain other relationships exist, then the Issuer may be required to withhold U.S. tax at a rate of up to 30% of interest payable on any Subordinated Notes owned by that person (including Subordinated Notes owned as part of IDSs), unless an exemption or reduced rate of U.S. withholding tax applies. Either of these could discourage third parties from pursuing a tender offer or other change of control transaction with respect to the Issuer, which otherwise might have led to a premium being paid for IDSs.

As a result of the transactions effected by the Rights Offering and the terms of the Credit Facility, certain U.S. tax rules may limit the NFL Group's ability to deduct interest expense for U.S. federal income tax purposes and may increase the NFL Group's tax liability

Under certain circumstances, Code section 163(j) limits a corporation's deductions for interest paid to related foreign persons exempt from U.S. tax or for interest paid on debt that is guaranteed by a related foreign person. As a result of the transactions effected by the Rights Offering, New Flyer became the holder of Subordinated Notes that were previously components of IDS held by holders that participated in the Rights Offering. In addition, the terms of the Credit Facility provide that New Flyer is a guarantor. Thus, the NFL Group's interest deductions may be limited with respect to the Subordinated Notes and the Credit Facility, which may result in an increase in the NFL Group's U.S. federal income tax liability. Such an increase would reduce the funds available for the payment of dividends on the Shares and interest on the Subordinated Notes.

The NFL Group's interest deductions on the Subordinated Notes may generate "dual consolidated losses" for U.S. federal income tax purposes and may result in disallowance of interest deductions if certain "triggering events" occur

Pursuant to Code section 1503(d) and the Treasury Regulations thereunder (the "DCL" Rules), the interest deductions associated with the Subordinated Notes, independently or together with any other deductions attributable to NFI ULC, may generate a "dual consolidated loss" ("DCL") for U.S. federal income tax purposes and would, in that case, be deductible by the NFL Group only if the NFL Group and NFI ULC make an election provided by the DCL Rules, and comply with all applicable requirements, including annual reporting and certification requirements. In the event that NFI ULC has a DCL for a taxable year, the NFL Group and NFI ULC intend to make such election and comply with all applicable requirements. Even if such an election is made, however, if any of several "triggering events" occurs (e.g., the use of such losses to offset the income of any other non-U.S. person, or, in certain circumstances, a disposition of NFI ULC stock or assets), the NFL Group will generally be required to report all or a portion of the amount of any prior interest deductions on the Subordinated Notes and other deductions (plus interest thereon) as gross income in the year of the triggering event. The NFL Group and NFI ULC intend to comply with all of the DCL reporting and certification requirements and to conduct their affairs such that no DCL triggering event occurs. However, if the NFL Group and NFI ULC fail to satisfy such reporting and certification requirements, or if a DCL triggering event occurs and no exception applies, the NFL Group's taxable income and thus its U.S. federal income tax liability would be materially increased. This would adversely affect the NFL Group's financial position, cash flow, and liquidity, and could affect the Issuer's ability to make interest or dividend payments on the Subordinated Notes and the Shares and may affect the NFL Group's ability to continue as a going concern.

An ownership change may limit the NFL Group's ability to use certain losses for U.S. federal income tax purposes and may increase the NFL Group's tax liability

The IPO and related transactions resulted in an "ownership change" within the meaning of the U.S. federal income tax laws addressing net operating loss carryforwards, alternative minimum tax credits and other similar tax attributes. As a result of such ownership change, as well as any prior ownership changes (if any), there will be specific limitations on the NFL Group's ability to use its net operating loss carryforwards and other tax attributes from periods prior to the IPO. It is possible in the future that such limitations could limit the NFL Group's ability to utilize such tax attributes and, therefore, result in an increase in the NFL Group's U.S. federal income tax liability. Such an increase would reduce the funds available for the payments of dividends on the Shares and interest on the Subordinated Notes.

U.S. federal income tax legislation enacted in 2004 relating to inversion transactions could adversely affect the U.S. taxation of the Company and holders

U.S. federal income tax legislation enacted in 2004 dealing with corporate "inversions" (e.g., certain transactions in which a non-U.S. corporation acquires substantially all of the equity interests in, or the assets of, a U.S. corporation, if, after the transaction, former equity owners of the U.S. corporation own a specified level of stock in the non-U.S. corporation) provides in certain cases that a non-U.S. corporation may be treated as a U.S. corporation for U.S. federal income tax purposes. This legislation should not apply to the Company, because of (i) the ownership of the Company, and (ii) the NFL Group's substantial business activities in Canada. In 2009, the U.S. Treasury Department promulgated final and temporary implementing regulations which replaced temporary implementing regulations that had been issued in 2006, that provide substantial support for the position that the inversion legislation should not apply to the Company. It is possible that, in finalizing the temporary implementing regulations, the U.S. Treasury Department could exercise its authority broadly and retroactively to cause the inversion legislation to apply to the Company, which could result in U.S. withholding taxes being imposed on dividends paid on the Shares to Non-U.S. Holders, as well as U.S. federal income taxes being imposed on any taxable income of the Company, including dividends received on the common shares held by NFI to the extent not eligible for a dividends received deduction and not otherwise excludable under the Code. In that case, NFI would become subject to U.S. federal income tax, which would adversely affect the Company's financial position, cash flow and liquidity, and could affect NFI's ability to make dividend payments on the Shares.

The Company's auditors have indicated that, if the NFL Group does not maintain substantial business activities in Canada, the risk that the inversion legislation may apply to the Company could cause the Company to require a reserve for financial accounting purposes for the potential increased U.S. tax liability of the Company. The nature and magnitude of any such reserve would depend on all the facts and circumstances relating to the Company and the NFL Group at the time, as well as the state of guidance from the U.S. Treasury Department on the inversion legislation. Any such reserve could adversely affect the Company's financial position, cash flow and liquidity, and could affect the Company's ability to make dividend payments on the Shares. Moreover, the risks associated with the potential application of the inversion legislation to the Company may restrict the Company's ability to pursue U.S. acquisitions in the future and such restrictions may materially adversely affect the Company's growth opportunities.

Notification pursuant to IRS Circular 230 precludes reliance by holders for the purpose of avoiding penalties that may be imposed under the Code

In order to ensure compliance with IRS Circular 230, holders of IDSs, Subordinated Notes or Shares are notified that: (a) any discussion of U.S. federal tax issues in this Annual Information Form is not intended or written to be used or relied upon, and cannot be used or relied upon by such holders, for the purpose of avoiding penalties that may be imposed on such holders under the Code; and (b) each holder of an IDS, Subordinated Note or Share should seek advice based on its particular circumstances from an independent tax advisor. This notification precludes holders of IDSs, Subordinated Notes or Shares from using or relying on any discussion of U.S. federal tax issues in this Annual Information Form for the purpose of avoiding penalties that may be imposed on such holders under the Code.

The NFL Group's deductions with respect to the transactions effecting the conversion of former management options into Management Options and the cancellation for cash of a portion of the former management options may be limited for U.S. federal income tax purposes

The NFL Group's deductions with respect to the transactions in connection with the IPO effecting the conversion of former management options to acquire shares of Transit Holdings into Management Options are quite substantial. The U.S. federal income tax laws with respect to the timing and amount of such deductions, as well as the appropriate taxpayer to take such deductions, are not entirely clear. The NFL Group has treated such deductions as deductions entirely of Transit Holdings in the taxable year of the IPO for U.S. federal income tax purposes. Such deductions, however, may be disallowed in whole or in part, may be deferred or may be allowed in a manner that significantly reduces the U.S. federal income tax benefit of such deductions. This would materially increase the NFL Group's taxable income and, thus, the NFL Group's U.S. federal and applicable state and local income tax liability. This would adversely affect the NFL Group's financial position, cash flow and liquidity, and could reduce the funds available for the payment of dividends on the Shares and interest on the Subordinated Notes.

NFI ULC may not be able to make all principal payments on the Subordinated Notes

The Subordinated Notes will mature in August, 2020. NFI ULC may not be able to refinance the principal amount of the Subordinated Notes in order to repay the principal outstanding or may not have generated enough cash from operations to meet this obligation. There is no guarantee that NFI ULC will be able to repay the outstanding principal amount upon maturity of the Subordinated Notes.

As a result of the subordinated nature of the guarantee of the Subordinated Notes, upon any distribution to creditors of NFL Holdings in a bankruptcy, liquidation or reorganization or similar proceeding relating to NFL Holdings or its property or assets, the holders of NFL Holdings' senior indebtedness will be entitled to be paid in full in cash before any payment may be made with respect to the Subordinated Notes under the guarantee provided by NFI.

The IDSs could be de-listed from the TSX in certain circumstances; There is no public market for the Subordinated Notes and holders may have limited liquidity

The outstanding IDSs are currently listed and traded on the TSX under the symbol "NFI.UN". However, as a result of the Common Share Conversion and the Consolidation, the number of IDSs outstanding is significantly lower than has historically been the case. The IDSs could be de-listed from the TSX if the IDSs fail to meet the TSX's minimum listing requirements or if the Company determines such de-listing is advisable (based on insufficient liquidity of the IDSs or because the cost and complexity of maintaining the listing outweighs the benefits of the listing). As a result, there may not be any market through which holders of IDSs can trade their IDSs and it may be difficult or impossible for any such holder of IDSs to sell all or any portion of their IDSs.

If holders of IDSs separate their IDSs or if they are automatically separated upon the maturity, redemption or repurchase of the Subordinated Notes, such holders may trade the Shares represented by such IDSs through the facilities of the TSX. However, the Subordinated Notes do not have a public market history, an active trading market for those securities does not currently exist and there is no intention to independently list the Subordinated Notes on the TSX. As such, holders of Subordinated Notes (including holders of Separate Subordinated Notes) will be unable to trade their Notes through the facilities of the TSX and an active trading market may not develop. As a result, there may continue to be limited liquidity for the Subordinated Notes (including Separate Subordinated Notes).

The market price for the Shares, IDSs or Subordinated Notes may be volatile

Factors such as variations in the Issuer's financial results, announcements by the Issuer or others, developments affecting the Company's business, general interest rate levels, the market price of the Shares and general market volatility could cause the market price of the Shares, the IDSs, or the Subordinated Notes to fluctuate significantly.

In addition, future sales or the availability for sale of substantial amounts of Shares or a significant principal amount of Subordinated Notes in the public market could adversely affect the prevailing market price of the Shares, the IDSs and the Subordinated Notes and could impair the Issuer's ability to raise capital through future sales of its securities.

MARKET FOR SECURITIES

Common Shares

The Shares were listed and commenced trading on the TSX under the symbol "NFI" on August 19, 2011, following the closing of the Rights Offering. The total monthly volume of trading and the closing price ranges of the Shares on the TSX in each month for the period from August 19, 2011 to December 31, 2011 are set forth in the following table [1]:

	CLOSING HIGH (C$)	CLOSING LOW (C$)	TOTAL VOLUME
August 2011…………………..	0.75	0.59	1,978,195
September 2011 ………………	0.66	0.59	6,563,111
October 2011 [2] ……................	6.40	0.58	2,035,429
November 2011 ………………	6.14	5.65	1,056,714
December 2011 ………………	5.80	5.32	1,342,047

(1) Source: Historical data from the TSX.
(2) The Shares began trading on a post-Consolidation basis on the TSX on October 5, 2011 and the trading prices after this date reflect such 10:1 Consolidation.

Income Deposit Securities

The IDSs are listed and posted for trading on the TSX under the trading symbol "NFI.UN". The total monthly volume of trading and the closing price ranges of the IDSs on the TSX in each month for the period from January 1, 2011 to December 31, 2011 are set forth in the following table [1]:

	CLOSING HIGH (C$)	CLOSING LOW (C$)	TOTAL VOLUME
January 2011 ……….	11.84	10.93	2,235,283
February 2011 ……...	11.96	11.41	1,400,546
March 2011 ………...	12.00	10.40	3,982,796
April 2011 ………….	10.58	10.20	2,568,288
May 2011 …………..	10.51	9.02	3,646,661
June 2011 …………..	9.21	7.10	5,257,237
July 2011 …………..	8.26	7.56	1,421,434
August 2011 ……….	7.66	6.14	2,613,724
September 2011 ……	6.76	6.25	572,970
October 2011 [2]……	62.50	6.21	121,589
November 2011 ……	63.00	61.80	58,353
December 2011 …….	63.45	62.20	44,347

(1) Source: Historical data from the TSX.
(2) The IDSs began trading on a post-Consolidation basis on the TSX on October 5, 2011 and the trading prices after this date reflect such 10:1 Consolidation.

AUDITORS, TRANSFER AGENT, REGISTRAR AND TRUSTEE

The auditors of the Company are Deloitte & Touche LLP at its office in Winnipeg, Manitoba.

The transfer agent and registrar for the Shares and the IDSs is Computershare Investor Services Inc. at its principal office in Toronto, Ontario.

The Trustee for the Subordinated Notes is Computershare Trust Company of Canada at its principal office in Toronto, Ontario.

MATERIAL CONTRACTS

In addition to contracts entered into in the ordinary course of business, the following material contracts have been entered into by the Issuer within the most recently completed financial year:

- the investor representation agreement March 21, 2012 between Coliseum Capital Management, LLC and NFI referred to under "General Development of the Business – Recent Developments – Fiscal 2011 and 2012 Year-to-date";
- the Restricted Share Unit Plan of NFI ULC dated December 13, 2011;
- the Deferred Share Unit Plan for Non-Employee Directors of NFI dated November 7, 2011;
- the Performance Unit Plan of NFI ULC dated December 1, 2007, as amended on October 2, 2011;
- the New Performance Unit Plan of NFI ULC dated January 1, 2011, as amended on October 2, 2011;
- the SRP dated August 29, 2011 and referred to under "General Development of the Business – Recent Developments – Fiscal 2011 and 2012 Year-to-date" and "Description of Capital Structure – Shareholder Rights Plan";
- the Subordinated Note Indenture, as amended on August 19, 2011, referred to under "Description of Capital Structure – Description of Subordinated Notes";
- the Credit Facility referred to under "General Development of the Business – Recent Developments – Fiscal 2011 and 2012 Year-to-date" and "Description of Capital Structure – Credit Facility"; and
- the Dealer Manager Agreement dated July 7, 2011 between NFI and the Dealer Manager (as defined therein) entered into a connection with the Rights Offering.

Each of the above material contracts is available for review on SEDAR at www.sedar.com.

LEGAL PROCEEDINGS

In the ordinary course of business, the Issuer may, from time to time, be subject to various pending and threatened lawsuits in which claims for monetary damages are asserted. The Issuer is not involved in any legal proceedings that management expects will have a material effect on the Issuer. To management's knowledge, no legal proceedings of a material nature involving the Issuer are pending or threatened by any individuals, entities or governmental authorities.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

To the knowledge of the directors of the Issuer, as of the date of this Annual Information Form, no director nor officer and no person or company beneficially owning, directly or indirectly, or exercising control or direction over, Shares carrying more than 10% of the voting rights attached to the Shares (of which there are none to the knowledge of the directors of the Company), nor any associates or affiliates of the foregoing, had any material interest in any transactions involving the Issuer, except as described herein.

INTERESTS OF EXPERTS

Deloitte & Touche LLP, the Issuer's auditor, has been named as having prepared a certified statement, report or valuation described or included in a filing, or referred to in a filing, made under National Instrument 51-102 - *Continuous Disclosure Obligations* by the Issuer during, or relating to the Issuer's fiscal year ended January 1, 2012. To the knowledge of the Issuer, Deloitte & Touche LLP holds no registered interest, directly or indirectly, in any securities or other property of the Issuer or any of its affiliates.

ADDITIONAL INFORMATION

Additional information is provided in the Issuer's financial statements and management's discussion and analysis of the Issuer's financial condition and results of operations for its most recently completed fiscal year. Copies of such documents and any additional information related to the Issuer may be found on SEDAR at www.sedar.com. In the alternative, copies may be obtained from the Issuer, upon written request.

Additional information, including directors' and officers' remuneration and indebtedness and the principal holders of the Issuer's securities will be contained in the Issuer's Management Information Circular, to be filed with Canadian securities regulatory authorities in connection with the annual meeting of shareholders of NFI to be held in respect of its 2011 fiscal year.

APPENDIX “A”

NEW FLYER INDUSTRIES INC. and NEW FLYER INDUSTRIES CANADA ULC (together, the “Issuer”)

AUDIT COMMITTEE CHARTER

1. RESPONSIBILITY

The Audit Committee (the “Committee”) is responsible for assisting the Board of Directors of the Issuer (the “Board”) in fulfilling its oversight responsibilities in relation to:

(i) the integrity of the Issuer’s financial statements;

(ii) the Issuer’s compliance with legal and regulatory requirements related to financial reporting;

(iii) the qualifications, independence and performance of the Issuer’s auditor;

(iv) the design and implementation of internal controls and disclosure controls;

(v) the review and identification of the principal risks facing the Issuer and development of appropriate procedures to monitor and mitigate such risks;

(vi) the development, implementation and administration of the Issuer’s Whistleblower Policy; and

(vii) any additional matters delegated to the Committee by the Board.

2. MEMBERS

The members of the Committee will be selected by the Board on the recommendation of the Issuer’s Human Resources, Compensation and Corporate Governance Committee (the “HR Committee”). The Committee will initially be comprised of three directors of the Issuer and its size may be increased if so determined by the Board.

Each member of the Committee will be both “independent” and “financially literate” within the meaning of applicable securities laws, including without limitation, Multilateral Instrument 52-110 - *Audit Committees*.

3. DUTIES

The Committee is responsible for performing the duties set out below as well as any other duties at any time required by law to be performed by the Committee or otherwise delegated to the Committee by the Board.

(a) **Appointment and Review of the Auditor**

The auditor is ultimately accountable to the Committee and reports directly to the Committee. Accordingly, the Committee will evaluate and be responsible for the Issuer's relationship with the auditor. Specifically, the Committee will:

(i) select, evaluate and recommend an auditor to the Board for appointment or reappointment, as the case may be, by the shareholders of New Flyer Industries Inc. and make recommendations with respect to the auditor's compensation;

(ii) review and approve the auditor's engagement letter;

(iii) review, after seeking and taking into account the opinions of senior management, the experience, qualifications, performance and independence (including considering whether the auditor's provision of any permitted non audit services is compatible with maintaining its independence) of the auditor, its engagement and lead partners, with a view to recommending its appointment or reappointment;

(iv) resolve any disagreements between senior management and the auditor regarding financial reporting;

(v) at least annually, obtain and review a report by the auditor describing:

- the auditor's internal quality control procedures, including the safeguarding of confidential information;
- any material issues raised by (i) the most recent internal quality control review, or peer review, of the auditor, which relates to services provided to the Issuer or its subsidiaries by the auditor, or (ii) the review of the auditor by any independent oversight body, such as the Canadian Public Accountability Board, or governmental or professional authorities within the preceding year respecting one or more independent audits carried out by the auditor, and, in the case of each of (i) and (ii), the steps taken to deal with any issues raised in any such review;

(vi) meet with senior management not less than quarterly without the auditor present for the purpose of discussing, among other things, the performance of the auditor and any issues that may have arisen during the quarter; and

(vii) where appropriate, recommend to the Board that the auditor be terminated.

(b) **Confirmation of the Auditor's Independence**

At least annually, and in any event before the auditor issues its report on the annual financial statements, the Committee will:

(i) review a formal written statement from the auditor describing all of its relationships with the Issuer;

(ii) discuss with the auditor any relationships or services that may affect its objectivity and independence (including considering whether the auditor's provision of any permitted non-audit services is compatible with maintaining its independence);

(iii) obtain written confirmation from the auditor that it is objective within the meaning of the Rules of Professional Conduct/Code of Ethics adopted by the provincial institute or order of Chartered Accountants to which it belongs and is an independent public accountant within the meaning of the Independence Standards of the Canadian Institute of Chartered Accountants; and

(iv) confirm that the auditor has complied with applicable rules, if any, with respect to the rotation of certain members of the audit engagement team.

(c) **Pre-Approval of Non-Audit Services**

The Committee will pre-approve the appointment of the auditor for any non-audit service to be provided to the Issuer or to any subsidiary of the Issuer; provided that it will not approve any service that is prohibited under the rules of the Canadian Public Accountability Board or the Independence Standards of the Canadian Institute of Chartered Accountants. Before the appointment of the auditor for any non-audit service, the Committee will consider the compatibility of the service with the auditor's independence. The Committee may pre-approve the appointment of the auditor for any non-audit services by adopting specific policies and procedures, from time to time, for the engagement of the auditor for non-audit services. Such policies and procedures will be detailed as to the particular service, and the Committee must be informed of each service, and the procedures may not include delegation of the Committee's responsibilities to management. In addition, the Committee may delegate to one or more members the authority to pre-approve the appointment of the auditor for any non-audit service to the extent permitted by applicable law provided that any pre-approvals granted pursuant to such delegation shall be reported to the full Committee at its next scheduled meeting.

(d) **Communications with the Auditor**

The Committee has the authority to communicate directly with the auditor and will meet privately with the auditor periodically to discuss any items of concern to the Committee or the auditor, such as:

(i) the scope, planning and staffing of the audit;

(ii) the auditor's materiality threshold for the audit;

(iii) the assessment by the auditor of significant audit risk;

(iv) any material written communications between the auditor and senior management, such as any management letter or schedule of unadjusted differences;

(v) whether or not the auditor is satisfied with the quality and effectiveness of financial recording procedures and systems;

(vi) the extent to which the auditor is satisfied with the nature and scope of its examination;

(vii) whether or not the auditor has received the full co-operation of senior management and other employees of the Issuer;

(viii) the auditor’s opinion of the competence and performance of the Chief Financial Officer and other key financial personnel;

(ix) the items required to be communicated to the Committee under the Canadian authoritative guidance;

(x) critical accounting policies and practices to be used by the Issuer and its subsidiaries;

(xi) alternative treatments of financial information within international financial reporting standards (“IFRS”) that have been discussed with senior management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the auditor;

(x) any difficulties encountered in the course of the audit work, including any unresolved issues, any restrictions imposed on the scope of activities or access to requested information, any significant disagreements with senior management and their response; and

(xi) any illegal act that may have occurred.

(e) **Review of the Audit Plan**

The Committee will discuss with the auditor the nature of an audit and the responsibility assumed by the auditor when conducting an audit under generally accepted auditing standards. The Committee will review a summary of the auditor’s audit plan for each audit and approve the audit plan with such amendments as it may agree with the auditor.

(f) **Review of Audit Fees**

The Committee will review and re-determine the auditor’s fee and the terms of the auditor’s engagement and inform the Board thereof. In determining the auditor’s fee, the Committee will consider, among other things, the number and nature of reports to be issued by the auditor, the quality of the internal controls of the Issuer, the size, complexity and financial condition of the Issuer and the extent of support to be provided to the auditor by the Issuer.

(g) **Review of Financial Statements and MD&A**

The Committee will review and discuss with senior management and the auditor the annual audited financial statements, together with the auditor's report thereon and the interim financial statements, before recommending them for approval by the Board. The Committee will also review and discuss with senior management and the auditor management's discussion and analysis relating to the annual audited financial statements and interim financial statements. The Committee will also engage the auditor to review the interim financial statements prior to the Committee's review of such financial statements.

In conducting its review of the financial statements and related management's discussion and analysis, the Committee will:

(i) consider the quality of, and not just the acceptability of, the accounting principles, the reasonableness of senior management's judgments and estimates that have a significant effect upon the financial statements, and the clarity of the disclosures in the financial statements;

(ii) discuss any analyses prepared by senior management or the auditor that set out significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative IFRS treatment;

(iii) discuss the effect of off-balance sheet transactions, arrangements, obligations (including contingent liabilities) and other relationships with unconsolidated entities or other persons that may have a material current or future effect on the Issuer's financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenues and expenses;

(iv) consider any proposed changes in accounting practices or policies and their impact on financial statements of the Issuer;

(v) discuss with senior management, the auditor and, if necessary, legal counsel, a report from senior management describing any litigation, claim or other contingency, including tax assessments, that could have a material effect upon the financial position of the Issuer, and the manner in which these matters have been disclosed in the financial statements;

(vi) discuss with senior management and the auditor any correspondence with regulators or governmental agencies, employee complaints or published reports that raise material issues regarding the Issuer's financial statements or accounting policies;

(vii) discuss with the auditor any special audit steps taken in light of material weaknesses in internal control;

(viii) review the results of the audit, including any reservations or qualifications in the auditor's opinion;

(ix) discuss with senior management all significant variances between comparative reporting periods;

(x) discuss with the auditor any difficulties encountered in the course of the audit work, including any restrictions on the scope of their procedures and access to requested information, accounting adjustments proposed by the auditor which were "passed" (as immaterial or otherwise), and significant disagreements with senior management and the method of resolution;

(xi) discuss with the auditor any material issues on which the audit team consulted the auditor's national office; and

(xii) consider any other matter which in its judgment should be taken into account in reaching its recommendation to the Board concerning the approval of the financial statements.

(h) **Review of Other Financial Information**

The Committee will review:

(i) all earnings press releases and other press releases disclosing financial information, as well as financial information and written earnings guidance provided to analysts and rating agencies. The Committee will also review the use of "pro forma" or "adjusted" non-IFRS information in such press releases and financial information. Such review may consist of a general discussion of the types of information to be disclosed or the types of presentations to be made;

(ii) all other financial statements of the Issuer that require approval by the Board before they are released to the public, including, without limitation, financial statements for use in prospectuses or other offering or public disclosure documents and financial statements required by regulatory authorities;

(iii) the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Issuer's financial statements; and

(iv) disclosures made to the Committee by the Chief Executive Officer and Chief Financial Officer during their certification process for applicable securities law filings about any significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the ability to record, process, summarize and report financial information, and any fraud involving senior management or other employees who have a significant role in internal control over financial reporting.

(i) **Oversight of Internal Controls and Disclosure Controls**

The Committee will review periodically with senior management the adequacy of the internal controls and procedures that have been adopted by the Issuer and its subsidiaries to safeguard assets from loss and unauthorized use and to verify the accuracy of the financial records. The Committee will review any special audit steps adopted in light of material control deficiencies or identified weaknesses.

The Committee will review with senior management the controls and procedures that have been adopted by the Issuer to confirm that material information about the Issuer and its subsidiaries that is required to be disclosed under applicable law or stock exchange rules is disclosed.

(j) **Review of the Internal Audit Function**

The Committee will review the mandate, budget, planned activities, staffing and organizational structure of the internal audit function (which may be outsourced to a firm other than the auditor) to confirm that the internal audit function is independent of management and has sufficient resources to carry out its mandate. The Committee will discuss this mandate with the auditor.

The Committee will review the appointment and replacement of the internal auditor and will review the significant reports to senior management prepared by the internal auditor and senior management's responses.

The Committee has the authority to communicate directly with the internal auditor. In addition, as frequently as it deems necessary to fulfill its responsibilities, but not less often than annually, the Committee will meet privately with the internal auditor to discuss any areas of concern to the Committee or the internal auditor.

(k) **Legal Compliance**

The Committee will review any legal matters that could have a significant effect on the Issuer's financial statements. It will also review with legal counsel material inquiries received from regulators and governmental agencies and advise the Board accordingly.

(l) **Enterprise Risk Management**

The Issuer has developed an enterprise risk management framework by which management is able to focus on the identification of risks, the assessment of those risks and the mitigation of risks associated with the achievement of the Issuer's strategic objectives. The Issuer's risk management program is managed through an executive level risk committee in conjunction with the Internal Audit department.

The Committee will oversee the Issuer's risk management function and the enterprise risk management framework and, on a quarterly basis, will review a report from senior management describing the major financial, legal, operational and reputational risk exposures of the Issuer and the steps senior management has taken to monitor and control such exposures, including the Issuer's policies with respect to risk assessment and management. The Committee will review environmental, insurance and other liability issues, risk management and information technology issues and review policies and procedures in respect thereof and report to the Board on such matters. The Committee will also review and approve management's information technology strategic plan, business continuity plans and major technology capital investments consistent with the Issuer's capital budget recommended by the Committee and approved by the Board.

(m) **Taxation Matters**

The Committee will review with senior management the status of taxation matters of the Issuer and its subsidiaries. The Committee will also review a report from senior management confirming that the Issuer and its subsidiaries have withheld or collected and remitted all amounts required to be withheld or collected and remitted by them in respect of any taxes, levies, assessments, reassessments and other charges payable to any governmental authority.

(n) **Employees of the Auditor**

The Committee will establish, review and approve policies for the hiring by the Issuer of any partners and employees and former partners and former employees of the present or former auditor.

(o) **Evaluation of Financial and Accounting Personnel**

The Committee will have direct responsibility to:

(i) develop a position description for the Chief Financial Officer, setting out the Chief Financial Officer's authority and responsibilities, and present the same to the HR Committee and Board for approval;

(ii) review and approve the goals and objectives that are relevant to the Chief Financial Officer's compensation and present the same to the HR Committee;

(iii) evaluate the Chief Financial Officer's and director of Internal Audit's performance in meeting their goals and objectives;

(iv) make specific recommendations to the HR Committee and Board with respect to the Chief Financial Officer's and the director of Internal Audit's compensation based on the evaluation referred to above;

(v) review and assess, with the input of senior management and, if required by the Committee, the external auditor, the performance of the Issuer's financial and accounting personnel; and

(vi) recommend to the HR Committee and Board remedial action where necessary.

(p) **Signing Authority and Approval of Expenses**

The Committee will determine the signing authority of officers and directors in connection with the expenditure and release of funds. The Committee will also review the Chief Executive Officer and Chief Financial Officer's expense statements. Director expense statements will be reviewed by the Chief Executive Officer. Where the Chief

Executive Officer thinks it advisable, he or she may request that the Committee review director expense statements.

4. COMPLAINTS PROCEDURE

The Committee will establish a Whistleblower Policy for the receipt, retention and follow-up of complaints received by the Issuer regarding accounting, internal controls, disclosure controls or auditing matters and any violation of the Issuer's Code of Business Conduct and Ethics and a procedure for the confidential, anonymous submission of concerns by employees of the Issuer regarding such matters.

5. REPORTING

The Committee will regularly report to the Board on:

(i) the auditor's independence, engagement and fees;

(ii) the performance of the auditor and the Committee's recommendations regarding its reappointment or termination;

(iii) the adequacy of the Issuer's internal controls and disclosure controls;

(iv) the Issuer's risk management procedures;

(v) its recommendations regarding the annual and interim financial statements of the Issuer, including any issues with respect to the quality or integrity of the financial statements;

(vi) its review of the annual and interim management's discussion and analysis;

(vii) any complaints made under and the effectiveness of the Issuer's Whistleblower Policy;

(viii) the Issuer's compliance with legal and regulatory requirements related to financial reporting; and

(ix) all other significant matters it has addressed or reviewed and with respect to such other matters that are within its responsibilities, together with any associated recommendations.

6. AUDIT COMMITTEE MEETINGS

(a) Scheduling

The Committee will meet as often as it determines is necessary to fulfill its responsibilities, which in any event will be not less than quarterly. A meeting of the Committee may be called by the auditor, the chairperson of the Committee (the "Committee Chair"), the chairperson of the Board, the Chief Executive Officer, the Chief Financial Officer or any Committee member.

Meetings will be held at a location determined by the Committee Chair and notice shall be given in accordance with the provisions of the Issuer's by-laws.

(b) **Notice to Auditor**

The auditor is entitled to receive notice of every meeting of the Committee and, at the expense of the Issuer, to attend and be heard thereat and, if so requested by a member of the Committee, shall attend any meeting of the Committee held during the term of office of the auditor.

(c) **Agenda**

The Committee Chair will establish the agenda for each meeting. Any member may propose the inclusion of items on the agenda, request the presence of or a report by any member of senior management, or at any meeting raise subjects that are not on the agenda for the meeting.

(d) **Distribution of Information**

The Committee Chair will distribute, or cause the officers of the Issuer to distribute, an agenda and meeting materials in advance of each meeting to allow members sufficient time to review and consider the matters to be discussed.

(e) **Attendance and Participation**

Each member is expected to attend all meetings. A member who is unable to attend a meeting in person may participate by telephone or teleconference.

(f) **Quorum**

Two members will constitute a quorum for any meeting of the Committee.

(g) **Voting and Approval**

At meetings of the Committee, each member will be entitled to one vote and questions will be decided by a majority of votes. In case of an equality of votes, the Committee Chair will not have a second or casting vote in addition to his or her original vote.

(h) **Procedures**

Procedures for Committee meetings will be determined by the Committee Chair unless otherwise determined by the by-laws of the Issuer or a resolution of the Committee or the Board.

(i) **Transaction of Business**

The powers of the Committee may be exercised at a meeting where a quorum is present in person or by telephone or other electronic means, or by resolution in writing signed by all members entitled to vote on that resolution at a meeting of the Committee.

(j) **Absence of the Committee Chair**

In the absence of the Committee Chair at a meeting of the Committee, the members in attendance must select one of them to act as chairperson of that meeting.

(k) **Secretary**

The Committee may appoint one of its members or any other person to act as secretary.

(l) **Minutes of Meetings**

A person designated by the Committee Chair at each meeting will keep minutes of the proceedings of the Committee and the Committee Chair will cause an officer of the Issuer to circulate copies of the minutes to each member on a timely basis.

7. COMMITTEE CHAIR

Each year, the Board will appoint one member who is qualified for such purpose to be the Committee Chair. If, in any year, the Board does not appoint a Committee Chair, the incumbent Committee Chair will continue in office until a successor is appointed.

8. REMOVAL AND VACANCIES

Any member may be removed and replaced at any time by the Board, and will automatically cease to be a member as soon as the member ceases to meet the qualifications set out above. The Board will fill vacancies on the Committee by appointment from among qualified members of the Board. If a vacancy exists on the Committee, the remaining members will exercise all of its powers so long as a quorum remains in office.

9. ASSESSMENT

At least annually, the HR Committee will review the effectiveness of the Committee in fulfilling its responsibilities and duties as set out in this Charter and in a manner consistent with the mandate adopted by the Board.

10. REVIEW AND DISCLOSURE

The Committee will review this Charter at least annually and submit it to the HR Committee together with any proposed amendments. The HR Committee will review the Charter and submit it to the Board for approval with such further proposed amendments as it deems necessary and appropriate.

This Charter will be posted on the Issuer's Web site and the annual report of the Issuer will state that this Charter is available on the Web site or is available in print to any securityholder who requests a copy.

11. ACCESS TO OUTSIDE ADVISORS AND RECORDS

The Committee may, subject to advising the chairperson of the Board, retain independent counsel and any outside advisor at the expense of the Issuer at any time and has the authority to determine any such advisors' fees and other retention terms.

The Committee, and any outside advisors retained by it, will have access to all records and information relating to the Issuer and its subsidiaries and all their respective officers, employees and agents which it deems relevant to the performance of its duties.