November 6, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS AND 39-WEEKS ENDED SEPTEMBER 29, 2013

Information in this Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of New Flyer Industries Inc. ("NFI") is supplemental to, and should be read in conjunction with, NFI's interim condensed consolidated financial statements (including notes) (the "Financial Statements") for the 13-week period ("2013 Q3") and the 39-week period ("2013 YTD") ended September 29, 2013. This MD&A contains forward-looking statements, which are subject to a variety of factors that could cause actual results to differ materially from those contemplated by the forward-looking statements. See "Forward-looking Statements". Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the factors described in the public filings of NFI available on SEDAR at www.sedar.com. The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and, except where otherwise indicated, are presented in U.S. dollars, representing the functional currency of NFI. Unless otherwise indicated, the financial information contained in this MD&A has been prepared in accordance with IFRS and references to "$" or "dollars" mean U.S. dollars.

MEANING OF CERTAIN REFERENCES

References in this MD&A to "New Flyer" or the "Company" are to NFI and its consolidated subsidiaries. References in this MD&A to "management" are to management of NFI and the Company.

The common shares of NFI ("Shares") are traded on the Toronto Stock Exchange ("TSX") under the symbol "NFI" and NFI's 6.25% convertible unsecured subordinated debentures ("Debentures") are traded on the TSX under the symbol "NFI.DB.U". As of September 29, 2013, 55,466,904 Shares and $65.0 million aggregate principal amount of Debentures were outstanding. Additional information about NFI and the Company, including NFI's annual information form is available on SEDAR at www.sedar.com.

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

Forward-looking Statements

Certain statements in this MD&A are "forward-looking statements", which reflect the expectations of management regarding NFI's and the Company's future growth, results of operations, performance and business prospects and opportunities. The words "believes", "anticipates", "plans", "expects", "intends", "projects", "forecasts", "estimates" and similar expressions are intended to identify forward-looking statements. These forward-looking statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this MD&A. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not or the times at or by which such performance or results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements. Such differences may be caused by factors which include, but are not limited to availability of funding to the Company's customers to purchase buses and to exercise options and to purchase parts or services at current levels or at all, aggressive competition and reduced pricing in the industry, material losses and costs may be incurred as a result of product warranty issues and product liability claims, changes in Canadian or United States tax legislation, the Company's success depends on a limited number of key executives who the Company may not be able to adequately replace in the event that they leave the Company, the absence of fixed term customer contracts and the termination of contracts by customers for convenience, the current U.S federal "Buy-America" legislation, certain states' U.S. content bidding preferences and certain Canadian content purchasing policies may change and/or become more onerous, production delays may result in liquidated damages under the Company's contracts with its customers, the Company's ability to execute its planned production targets as required for current business and operational needs, currency fluctuations could adversely affect the Company's financial results or competitive position in the industry, the Company may not be able to maintain performance bonds or letters of credit required by its existing contracts or obtain performance bonds and letters of credit required for new contracts, third party debt service obligations may have important consequences to the Company, the covenants contained in the Company's senior credit facility ("Credit Facility") and the indenture governing its Debentures could impact the ability of the Company to fund dividends and take certain other actions, interest

rates could change substantially and materially impact the Company's profitability, the dependence on limited sources of supply, the timely supply of materials from suppliers, the possibility of fluctuations in the market prices of the pension plan investments and discount rates used in the actuarial calculations will impact pension expense and funding requirements, the Company's profitability and performance can be adversely affected by increases in raw material and component costs, the availability of labour could have an impact on production levels, new products must be tested and proven in operating conditions and there may be no demand for such new products from customers, the ability of the Company to successfully execute strategic plans and maintain profitability, risks related to acquisitions, joint ventures, and other strategic relationships with third parties and the ability to successfully integrate acquired businesses and assets into the Company's existing business and to generate accretive effects to income and cash flow as a result of integrating these acquired businesses and assets. NFI cautions that this list of factors is not exhaustive. These factors and other risks and uncertainties are discussed in NFI's press releases and materials filed with the Canadian securities regulatory authorities and are available on SEDAR at www.sedar.com.

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

DEFINITIONS OF EARNINGS FROM OPERATIONS, EBITDA, ADJUSTED EBITDA AND FREE CASH FLOW

References to "Earnings from Operations" are to earnings before interest expense, income taxes, losses or gains on disposal of property, plant and equipment, unrealized foreign exchange losses or gains on non-current monetary items and fair value adjustment to embedded derivatives. 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 and fair value adjustment to embedded derivatives. 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 non-recurring transitional costs relating to business acquisitions, loss on debt repurchase, loss on exercise of redemption right, past service pension costs, realized and unrealized investment tax credits ("ITCs"), stock-based compensation and costs associated with assessing strategic and corporate initiatives. "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, non-recurring transitional costs relating to business acquisitions, costs associated with assessing strategic and corporate initiatives, past service pension costs, proceeds on sale of redundant assets and decreased for defined benefit expense, cash capital expenditures and principal payments on capital leases.

Management believes Earnings from Operations, EBITDA, Adjusted EBITDA and Free Cash Flow are useful measures in evaluating the performance of the Company. However, Earnings from Operations, EBITDA, Adjusted EBITDA and Free Cash Flow are not recognized earnings measures under IFRS and do not have standardized meanings prescribed by IFRS. Readers of this MD&A are cautioned that Earnings from Operations, 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 NFI's and/or the Company's performance or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. A reconciliation of net earnings and cash flow to EBITDA and Adjusted EBITDA, based on the Financial Statements, has been provided under the heading "Reconciliation of Net Earnings to EBITDA and Adjusted EBITDA" and "Reconciliation of Cash Flow to EBITDA and Adjusted EBITDA", respectively. A reconciliation of Free Cash Flow to cash flows from operations is provided under the heading "Summary of Free Cash Flow".

NFI's method of calculating Earnings from Operations, 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 paid from Free Cash Flow are not assured, and the actual amount of dividends received by holders of Shares will depend on, among other things, the Company's financial performance, debt covenants and obligations, working capital requirements and future capital requirements, all of which are susceptible to a number of risks, as described in NFI's public filings available on SEDAR at www.sedar.com.

Business Overview

New Flyer, with its recently acquired NABI bus operations, is the leading manufacturer of heavy-duty transit buses in the United States and Canada. The Company is the industry technology leader and offers the broadest product line including drive systems powered by: clean diesel, natural gas and electric trolley as well as energy-efficient diesel-electric hybrid vehicles and all-electric buses. All buses are supported by an industry-leading comprehensive warranty and support program, and service network. New Flyer and its subsidiaries NABI Bus, LLC and NABI Parts, LLC also operate the industry's most sophisticated aftermarket parts organization, sourcing parts from

hundreds of different suppliers and providing support for all types of heavy-duty transit buses. On a combined basis, New Flyer and NABI bus operations have built approximately 32,000 buses since 1992.

The New Flyer group of companies employ over 3,000 team members with manufacturing, fabrication, parts distribution and service centers in both Canada and the United States.

Industry Overview

Funding and the U.S. Economy

On October 16, 2013, the U.S. Congress passed the Continuing Appropriations Act, 2014, and the U.S. President signed it on October 17, ending the 16-day federal government furlough and suspending the debt limit until February 7, 2014. This furlough had interrupted most U.S. Federal Transit Administration (the "FTA") activity, including processing bus procurement grants and making payments to grantees. The Company was not materially impacted as a result of some delayed payments for invoiced orders, which have been subsequently received.

Management remains encouraged by the general economic improvement of the U.S. states with preliminary data from the Rockefeller Institute (Data Alert on September 18, 2013) reporting state tax collections increasing in the second quarter of 2013 for the 14th consecutive quarter, with an 11% increase over the prior year.

Recent Ridership Trends

The latest data from the American Public Transportation Association's (APTA) ridership report indicated an increase of 1.16% in all modes of U.S. transit ridership during the second quarter of 2013 compared with the previous year; and specifically an increase in bus ridership of 0.54%. U.S. transit ridership has increased in eight of the last 10 quarters. The same report indicates Canadian ridership increased by 0.87% in all modes of transit during the first quarter of 2013 as compared to the previous year (the report does not specifically cite bus specific data on Canadian ridership).

Demand for Heavy-Duty Transit Buses

APTA data indicates that the average age for U.S. heavy-duty buses has risen from six to eight years from 2002 to 2012, which management believes should create future demand for replacement buses. The Canadian Urban Transit Association has reported the average age of Canadian heavy-duty buses has reduced from ten to six and a half years in the same period, which should result in a relatively flat replacement cycle. The demand for replacement buses in the near future is further supported by the Company's research which has identified approximately 5,700 of New Flyer buses that are older than 12 years and still in active service.

Bus manufacturers have some forward order visibility due to the fleet planning, budgeting and funding application processes customers undertake in order to purchase new vehicles. The Company tracks new and potential orders in a "pipeline" or "bid universe" as a key indicator in support of management's forecast for overall market demand and bid activity for the heavy-duty transit bus industry in Canada and the United States. The pipeline of EUs consists of: bids received with proposal in process, bids submitted and awaiting award and solicitations that management expects to be released by U.S. and Canadian transit agencies within a five-year horizon.

Equivalent Units	Bids in Process	Bids Submitted	Active EUs	Forecasted Future Industry Procurement over 5 Years(1)	Total Bid Universe
2012 Q1	2,390	3,107	5,497	9,603	15,100
2012 Q2	2,156	4,574	6,730	8,454	15,184
2012 Q3	3,334	2,542	5,876	11,854	17,730
2012 Q4	4,214	4,626	8,840	10,613	19,453
2013 Q1	3,173	4,145	7,318	7,917	15,235
2013 Q2	3,620	4,869	8,489	9,608	18,097
2013 Q3	**2,121**	**5,996**	**8,117**	**11,824**	**19,941**

(1) Management's estimate of expected future industry procurement over the next five years is based on discussions directly with certain individual U.S. and Canadian transit authorities.

Management believes that the transit bus market continues to show positive signs of recovery. The total active order activity of heavy-duty transit buses at the end of 2013 Q3 remains high at 8,117 EUs, compared to 5,876 EUs at the end of the 13-week period ended September 30, 2012 ("2012 Q3"). The total active order activity is defined as request for proposals were received and in process of review at New Flyer, and bids or proposals submitted by New Flyer awaiting customer action.

Aftermarket Parts

The aftermarket parts market consists of approximately 90% government municipalities and transit authorities and 10% private operators (such as rental car agencies). The complexity of the technologies integrated into transit buses, coupled with transit authorities' constrained operating budgets and high bus utilization levels continue to drive demand for aftermarket parts and support. The Company's leading share of in-service heavy-duty transit buses provides recurring demand and a significant opportunity to grow its aftermarket business. The Company provides parts and support for buses manufactured by New Flyer, NABI and its competitors. To assess the aftermarket parts market outlook, the Company regularly monitors the change in aftermarket parts operating budgets for some of the largest transit authorities. Management's latest review indicates that the aftermarket parts industry is expected to continue to improve.

2013 Third Quarter in Review

The Company was successful in completing the full integration of all Orion's aftermarket parts order taking and shipping activity into New Flyer's aftermarket parts operations.

During 2013 Q3, the Company announced its plans for expansion of its Winnipeg Aftermarket Parts business, Publications, Customer Training and New Product Development Centre, creating a "New Flyer Campus". The Company has entered into a lease for office, shop and warehouse space across the street from the New Flyer main Winnipeg plant. The New Flyer Campus resulted in a reduction in the number of Winnipeg facilities - first from five buildings to three - and now down to just two. Management believes that this campus approach can facilitate communication, collaboration and internal networking between all New Flyer business groups in Winnipeg. The transition of New Flyer's Technical Publications and Customer Training departments into the new space has now been completed. The remaining teams affected will relocate over the next four months.

Also, during 2013 Q3, New Flyer initiated an assessment of the acquisition of North American Bus Industries, Inc. ("NABI") during. The assessment included NABI site visits by all of the New Flyer operations groups and visits to the three New Flyer manufacturing sites by the NABI leadership team, with the objective of determining strengths and opportunities within the two organizations and identify potential synergies. All of the groups will be reviewing and implementing various initiatives identified during the assessment based on priorities established by management. Priorities will be set based on return on investment of time and resources. Longer term synergies identified as major projects will be prioritized, assigned to specific leadership and scheduled for completion. Department heads in each organization are building relationships to share best practices. Visits and analysis will continue on a regular schedule to understand each company's processes and controls and continue to build on strengths.

The aftermarket group also initiated a review of NABI's aftermarket business during 2013 Q3. The integration factors reviewed included; common expense categories including freight rates and packaging supplies, vendor cost differentials for same part sales, market coverage and commonality of bid opportunities where bidding/quoting overlap. A detailed review of the findings has begun.

New Flyer and NABI continue to be operated separately with management continuing to execute on its business plans and capture synergies where possible, with a focus on information technology systems as the key to understanding future cost saving initiatives. No material adverse issues have been discovered.

<u>Bus order activity during 2013 Q3</u>

New orders (firm and options) for New Flyer and NABI for 2013 Q3 totaled 2,431 EUs. The new firm and option orders awarded to New Flyer over the last twelve months ("LTM") ending September 29, 2013 were 6,003 EUs compared to just 574 EUs for the LTM ending September 30, 2012. Also, New Flyer was successful at converting 116 EUs of options during 2013 Q3, which contributed to the 568 EUs of options converted in LTM ending September 29, 2013 as compared to 932 EUs during the LTM periods ending September 30, 2012.

	New Orders in Quarter (Firm and Option EUs)	LTM New Orders (Firm and Option EUs)	Option EU Conversions in Quarter	LTM Option EU Conversions
Q3 2012	447	574	224	932
Q4 2012	1,055	1,620	190	970
Q1 2013	2,004	3,596	224	1,046
Q2 2013	513	4,019	38	676
Q3 2013	**2,431**	**6,003**	**116**	**568**

As well, firm and option orders of an additional 78 new buses (101 EUs) for New Flyer were pending at the end of 2013 Q3; approval had been granted by the customer's board, council, or commission, as applicable, but purchase documentation had not been received by the Company prior to September 29, 2013 and therefore these orders were not included in the 2013 Q3 backlog.

The total backlog at the end of 2013 Q3 was 9,890 EUs, an increase of 15.9% from the backlog at the end of the second quarter of 2013 ("2013 Q2"). The firm portion of the total backlog at the end of 2013 Q3 is made up of 2,748 EUs which has increased 22.0% compared with 2,252 EUs at the end of 2013 Q2. The total value of the order backlog at the end of 2013 Q3 was $4.6 billion, compared with $3.7 billion at the end of 2013 Q2. New Flyer's current backlog includes orders for clean propulsion vehicles (such as electric-hybrid, electric-trolley, compressed natural gas, liquid natural gas and all-electric) representing approximately 77% of the total orders.

In 2013 Q3 a total of 500 EUs expired, related to three U.S. contracts which reached the end of their respective contract terms. 1,800 EUs in the total backlog are eligible to expire in the fourth quarter of 2013 relating to a specific U.S. customer order that was added to the New Flyer backlog in 2008 and then deferred by the customer in 2009. This order will reach its five year term in November 2013, and management expects to remove 240 firm EUs and options for 1,560 EUs from the New Flyer backlog. The Company has not included this deferred order in any of its production plans since 2009.

Deliveries in 2013 Q3 were 577 EUs, which increased 49.5% from 386 EUs delivered in 2012 Q3, primarily due to the addition of NABI deliveries.

New Flyer's Book-to-Bill ratio (defined as new order intake – both firm and options - divided by deliveries) for the LTM ending September 29, 2013 was 309% as compared to only 33% for the LTM ended September 30, 2012. A ratio of above 100% implies that more orders were received than filled, indicating strong demand.

The Company line entered 592 EUs in 2013 Q3, which on a weekly basis, is less than management's planned average weekly rate of 48 EUs. This was due to the company-wide planned summer vacation that decreased production during the first week of 2013 Q3. Management currently expects the average line entry rate to be approximately 51 EUs per production week during the 12 available production weeks in the fourth quarter of 2013, even though the Company does not plan to line enter new buses into production during the winter holiday period occurring the last week of this year. The result is an expected average of 36 EUs line entered per production week at New Flyer for fiscal 2013, and an expected average of 12 EUs line entered per production week at NABI since its acquisition in June 2013.

The Company introduced MiDi®, New Flyer's medium-sized bus ideal for use in the medium duty transit markets, to the market at the APTA conference in May of 2013, and has since been demonstrating MiDi® buses for community shuttle and medium duty transit applications at national and regional trade shows, as well as through on-site customer visits and customer trials. Customer response has been positive and both private and public customer interest in the MiDi® has been increasing. The Company is actively responding to customer bid requests, and anticipates that the launch customer order will be confirmed in November of 2013.

Aftermarket order activity during 2013 Q3

Gross parts orders received by New Flyer's aftermarket business during 2013 Q3 (inclusive of the NABI parts business and the integrated Orion parts business) increased 102% compared to 2012 Q3, while parts shipments in 2013 Q3 increased 100.6% over 2012 Q3. Quarter over quarter, 2013 Q3 gross parts orders rose 14% over 2013 Q2, while parts shipments were up 16% over 2013 Q2 (inclusive of the NABI parts business and the integrated Orion parts business).

Order intake and delivery continues to be positively impacted by: the ramp up for the previously announced Chicago Transit Authority Midlife Overhaul program, the transition activities that culminated in the full integration of all Orion order taking and shipping activity into New Flyer and the addition of the NABI parts business. Management however continues to experience a challenging price environment.

2013 Third Quarter Financial Results

The Company generated consolidated revenue of $309.0 million for 2013 Q3, an increase of 48.2% compared to consolidated revenue for 2012 Q3 of $208.4 million, and consolidated revenue for 2013 YTD of $825.0 million, an increase of 24.4% from consolidated revenue for the 39-week period ended September 30, 2012 ("2012 YTD") of $663.0 million.

Revenue from bus manufacturing operations for 2013 Q3 was $250.6 million, an increase of 39.8% from $179.3 million in 2012 Q3, and revenue of $678.0 million for 2013 YTD increased 18.3% from $572.9 million for 2012 YTD. The increase in 2013 Q3 revenue primarily resulted from a 49.5% increase in total bus deliveries of 577 EUs in 2013 Q3 compared to 2012 Q3 deliveries of 386 EUs, offset by a 6.5% decrease in average selling price per EU in 2013 Q3 compared to 2012 Q3. The average selling price per EU in 2013 Q3 was $434.4 thousand a decrease compared to $464.6 thousand in 2012 Q3. Bus deliveries in 2013 YTD totaled 1,556 EUs, an increase of 22.6% compared to 1,269 EUs in 2012 YTD, while the average selling price per EU in 2013 YTD was $435.7 thousand, a decrease from $451.5 thousand in 2012 YTD. The average selling price has decreased as a result of sales mix when comparing the two periods. The increased deliveries were as a result of including NABI deliveries effective June 21, 2013.

Revenue from aftermarket operations in 2013 Q3 was $58.3 million, an increase of 100.6% compared to $29.1 million in 2012 Q3. Revenue from aftermarket operations for 2013 YTD was $147.0 million, an increase of 63.2% compared to $90.1 million in 2012 YTD. The increase in aftermarket operations revenue is primarily a result of increased volumes including incremental revenue from the Orion parts business subsequent to the March 1, 2013 acquisition date and the NABI parts business subsequent to June 21, 2013.

Consolidated Adjusted EBITDA for 2013 Q3 totaled $24.4 million (7.9% of revenue) compared to $14.1 million (6.8% of revenue) in 2012 Q3, which represents an increase of 73.5%. In comparing the respective periods, this increase in consolidated Adjusted EBITDA is primarily due to the incremental Adjusted EBITDA produced by the NABI bus and parts operations and from the Orion parts business.

2013 Q3 bus manufacturing operations Adjusted EBITDA of $15.9 million (6.3% of revenue) increased 65.4% compared with 2012 Q3 bus manufacturing operations Adjusted EBITDA of $9.6 million (5.4% of revenue) primarily due to the addition of the NABI bus operations when comparing the two periods. Profit margins can vary significantly between orders due to factors such as pricing, order size and product type. Adjusted EBITDA from bus manufacturing operations per EU can be volatile on a quarterly basis and therefore, management believes that a longer term view should be taken when comparing bus manufacturing operations margins.

2013 Q3 aftermarket operations Adjusted EBITDA of $8.5 million (14.6% of revenue) increased 91.0% compared to $4.5 million (17.0% of revenue) in 2012 Q3, primarily due to the additional Adjusted EBITDA generated by the NABI parts and the Orion parts businesses offset by margin compression as a result of pricing pressure in the market. The 2013 Q3 aftermarket operations Adjusted EBITDA was normalized for $0.4 million of non-recurring transitional costs.

2013 YTD consolidated Adjusted EBITDA of $57.9 million (7.0% of revenue) increased by 24.8% compared to 2012 YTD consolidated Adjusted EBITDA of $46.4 million (7.0% of revenue).

Bus manufacturing operations Adjusted EBITDA of $36.3 million (5.4% of revenue) for 2013 YTD increased 16.9% compared to $31.1 million (5.4% of revenue) for 2012 YTD. This increase in Adjusted EBITDA is primarily a result of the addition of the NABI bus operations.

Aftermarket operations Adjusted EBITDA for 2013 YTD of $21.5 million (14.6% of revenue) represents an increase of 40.8% over 2012 YTD aftermarket operations Adjusted EBITDA of $15.3 million (17.0% of revenue), primarily due to the additional Adjusted EBITDA generated by the NABI parts and the Orion parts businesses offset by margin compression as a result of pricing pressure in the market. The aftermarket operations Adjusted EBITDA for 2013 YTD was normalized for $1.2 million of non-recurring transitional costs.

The Company reported net earnings of $7.8 million in 2013 Q3, an increase compared to net earnings of $1.5 million in 2012 Q3, primarily as a result of $6.0 million increase in earnings from operations and the favourable impact caused by foreign currency translation which resulted from the weakening Canadian dollar offset by increased income taxes. Similarly, 2013 YTD net earnings of $13.0 million increased compared to 2012 YTD net earnings of $5.4 million.

The Company generated Free Cash Flow of C$13.1 million during 2013 Q3 while declaring dividends of C$8.1 million as compared to C$5.9 million of Free Cash Flow generated in 2012 Q3 and declared dividends of C$7.5 million. The amount of dividends declared increased in 2013 Q3 as a result of issuing 11.1 million common shares in 2013 YTD to strategic investor Marcopolo SA. During 2013 YTD, New Flyer generated Free Cash Flow of C$29.4 million while declaring dividends of C$22.6 million as compared to C$19.6 million of Free Cash Flow generated in 2012 YTD and declared dividends of C$26.6 million. The amount of dividends declared in 2013 YTD is lower than 2012 YTD as a result of reducing the annual dividend rate to C$0.585 per common share, effective for all dividends declared after August 20, 2012. Management believes that sufficient Free Cash Flow will be generated to maintain the current dividend rate.

The September 29, 2013 liquidity position of $90.5 million is comprised of available cash of $13.5 million and $77.0 million available under the Revolver as compared to $83.4 million at June 30, 2013. As at September 29, 2013, there were $12.0 million of direct borrowings and $26.0 million of outstanding letters of credit related to the $115.0 million Company's revolving credit facility ("Revolver"). Management believes that these funds, together with the cash generated from the Company's operating activities will provide the Company with sufficient liquidity and capital resources to meet its current and future financial obligations as they come due, as well as provide funds for its financing requirements, capital expenditures, dividend payments and other needs for the foreseeable future.

During 2013 Q3, the Company improved its liquidity position by $7.1 million by generating cash from operating activities of $16.4 million which offset the $11.9 million of cash used for investing and financing activities and a $2.6 million reduction of letters of credit outstanding. The $7.5 million repayment of the Revolver during 2013 Q3 does not factor into the change in liquidity position.

Outlook

The Company has been very active over the last few years as it continues to lead the heavy-duty transit bus industry in Canada and the United States, and is executing on its the strategic plan by investing to pursue long term stability, diversification and growth.
Industry headwinds afforded a number of opportunities to leverage the Company's leadership position, to pursue scale, product excellence and technology development. In 2013, the Company completed a number of significant corporate development initiatives including: the sale of a 19.99% ownership stake and implemented a strategic memorandum of understanding with the world's second largest bus builder, Marcopolo S.A.; the acquisition of the Orion aftermarket parts business from Daimler Buses North America Inc.; and the acquisition of North American Bus Industries, Inc. from an affiliate of Cerberus Capital Management L.P. After only a few months the management believes that it has made solid progress on integration initiatives with results largely meeting management's acquisition assumptions.

As has been highlighted many times over the past few years, the number of active heavy-duty transit bus procurements dropped noticeably since the financial crisis that began in 2008. In order to fill production slots and to stabilize facilities and operations, the Company built buses under the existing awards in its backlog. In order to replenish decreasing backlogs in an environment of fewer procurements, prices for new contracts declined dramatically. A significant portion of New Flyer's order backlog is comprised of orders obtained during this time period and management expects that on average, margins on orders planned for 2014 production will be lower than the average margins achieved during the period of excess capacity.

Starting in 2012 however, the New Flyer backlog (firm and options) achieved substantial recovery, which management believes was the beginning of a new purchasing cycle in the industry, similar to the purchase cycle back in 2007 and 2008. Management believes that transit agencies are again getting into a cadence of multi-year procurements, which occur over a certain period of time (typically five years in the United States). With the departure from the industry of Orion in 2012, management expects capacity will be more aligned with demand going forward.

New Flyer's total order book is currently $4.6 billion and now includes 2,748 firm EUs and 7,142 option EUs with an LTM Book-to-Bill ratio over 100% for three quarters in a row with a bid universe that remains very active. Notwithstanding the recent growth in awards and resulting backlog, management does not expect to increase line entry and delivery rates in 2014. This is primarily because the Company's firm orders are not sequential (meaning they cannot all be built in 2014) and the option portion of the awards will be exercised over the life of the contracts. Further, the time from award to production is not immediate and can take

up to 12 months before the firm portion of the contract is line entered in production. This creates a time lag before any sustainable increases in production rates can be achieved.

At this point in the third quarter, nearly two-thirds of next year's production slots have been filled (New Flyer and NABI combined) which is substantially better than the number of production slots filled for 2013 during this point last year. However, there are still open production slots in 2014 and management currently plans to maintain the present average production line entry rate of approximately 48 EUs per production week.

Finally, management is very encouraged by its efforts to grow the aftermarket parts business. The Company has substantially completed the integration of the Orion aftermarket parts business into the New Flyer parts business and is actively engaged in a strategic review of the New Flyer and NABI parts businesses.

Despite the pressure on margins, the Company continues to pursue cost and overhead savings in daily operations through its Operational Excellence initiatives and as part of the long term NABI integration and platform strategy development and management expects that the Company will remain in compliance with all credit facility covenants and will be able to maintain dividends at current levels.

SELECTED FINANCIAL AND OPERATING INFORMATION

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

QUARTERLY AND ANNUAL FINANCIAL INFORMATION

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

Fiscal Period	Quarter	Revenue	Earnings from Operations[1]	Net earnings (loss)	EBITDA [1]	Adjusted EBITDA [1]	Earnings (loss) per share[3]
2013	Q3	$ 308,956	$ 13,842	$ 7,832	$ 21,710	$ 24,416	$ 0.14
	Q2	268,669	6,794	1,684	13,331	18,063	0.03
	Q1	247,378	6,496	3,513	12,788	15,376	0.08
	Total	**$ 825,003**	**$ 27,132**	**$ 13,029**	**$ 47,829**	**$ 57,855**	**$ 0.26**
2012	Q4	$ 209,870	$ 7,725	$ 3,929	$ 14,061	$ 14,451	$ 0.09
	Q3	208,421	7,820	1,523	13,889	14,072	0.03
	Q2	226,980	10,686	3,398	11,055	16,366	0.08
	Q1	227,644	7,260	440	13,282	15,936	0.01
	Total	**$ 872,915**	**$ 33,491**	**$ 9,290**	**$ 52,287**	**$ 60,825**	**$ 0.21**
2011	Q4	$ 256,918	$ 30,063	$ 15,632	$ 35,214	$ 15,855	$ 0.35
	Q3	229,308	15,764	13,997	18,228	22,206	0.57
	Q2	225,853	12,811	(7,319)	18,765	20,037	(1.48)
	Q1	214,344	14,991	(6,361)	20,943	21,989	(1.29)
	Total	**$ 926,423**	**$ 73,629**	**$ 15,949**	**$ 93,150**	**$ 80,087**	**$ 0.81**

Fiscal Period	Quarter	Inventory, Beginning (equivalent units)[2]	NABI inventory acquired (equivalent units)[2]	New Line Entry (equivalent units)[2]	Deliveries (equivalent units)[2]	Inventory, Ending (equivalent units)[2]	Inventory comprised of: Work in process (equivalent units)[2]	Inventory comprised of: Finished goods (equivalent units)[2] & [4]
2013	Q3	305	—	592	577	320	294	26
	Q2	203	116	475	489	305	301	4
	Q1	225	—	468	490	203	199	4
	Total	**225**	**116**	**1,535**	**1,556**	**320**	**294**	**26**
2012	Q4	183	—	429	387	225	217	8
	Q3	187	—	382	386	183	178	5
	Q2	175	—	453	441	187	167	20
	Q1	189	—	428	442	175	163	12
	Total	**189**	**—**	**1,692**	**1,656**	**225**	**217**	**8**
2011	Q4	238	—	421	470	189	185	4
	Q3	236	—	444	442	238	233	5
	Q2	218	—	449	431	236	224	12
	Q1	209	—	477	468	218	200	18
	Total	**209**	**—**	**1,791**	**1,811**	**189**	**185**	**4**

COMPARISON OF THIRD QUARTER AND TRAILING TWELVE MONTHS RESULTS

(Unaudited, U.S. dollars in thousands, except for deliveries in equivalent units)

	13-Weeks Ended September 29, 2013	13-Weeks Ended September 30, 2012	**39-Weeks Ended September 29, 2013**	39-Weeks Ended September 30, 2012	**52-Weeks Ended September 29, 2013**	52-weeks Ended September 30, 2012
Statement of Earnings Data						
Revenue						
Canada	$ 38,359	$ 28,469	$ 106,613	$ 108,882	$ 120,103	$ 139,073
U.S.	212,266	150,867	571,373	464,056	738,810	661,350
Bus manufacturing operations	250,625	179,336	677,986	572,938	858,913	800,423
Canada	13,348	8,910	42,296	28,400	51,086	37,210
U.S.	44,983	20,175	104,721	61,707	124,874	82,325
Aftermarket operations	58,331	29,085	147,017	90,107	175,960	119,535
Total revenue	$ 308,956	$ 208,421	$ 825,003	$ 663,045	$ 1,034,873	$ 919,958
Earnings from Operations[1]	$ 13,842	$ 7,820	$ 27,132	$ 25,766	$ 34,857	$ 55,828
Earnings before interest and income taxes	15,598	6,940	26,772	17,694	34,241	49,554
Net earnings	7,832	1,523	13,029	5,361	16,958	20,993
EBITDA[1]	21,710	13,889	47,829	38,226	61,890	73,440
Adjusted EBITDA[1]						
Bus manufacturing operations including realized foreign exchange losses/gains	15,882	9,603	36,336	31,085	46,499	41,864
Aftermarket operations	8,534	4,469	21,519	15,289	25,807	20,365
Total Adjusted EBITDA[1]	$ 24,416	$ 14,072	$ 57,855	$ 46,374	$ 72,306	$ 62,229
Other Data						
Canada	100	68	266	259	299	329
U.S.	477	318	1,290	1,010	1,644	1,410
Total deliveries (equivalent units)[2]	577	386	1,556	1,269	1,943	1,739
Total capital expenditures	$ 3,716	$ 3,558	$ 7,351	$ 9,570	$ 10,637	$ 12,739
New options awarded	$ 873,145	$ 37,778	$ 1,708,330	$ 37,778	$ 1,980,859	$ 42,207
New firm orders awarded	501,079	137,879	838,733	200,215	1,031,405	206,499
Exercised options	53,312	117,337	170,107	355,447	244,720	419,836
Total firm orders	$ 554,391	$ 255,216	$ 1,008,840	$ 555,662	$ 1,276,125	$ 626,335

(1) Earnings from Operations, EBITDA and Adjusted EBITDA are not recognized earnings measures and do not have standardized meanings prescribed by IFRS. Therefore, Earnings from Operations, EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See "Definitions of Earnings from Operations, EBITDA, Adjusted EBITDA and Free Cash Flow" above. Management believes that Earnings from Operations, EBITDA and Adjusted EBITDA are useful supplemental measures in evaluating performance of NFI.

(Unaudited, U.S. dollars in thousands)	**September 29, 2013**		December 30, 2012		January 1, 2012	
Selected Statement of Financial Position Data						
Total assets	$ 1,088,457		$ 897,224		$ 870,462	
Long-term financial liabilities	336,395		314,450		300,234	
Other Data		Equivalent Units[2]		Equivalent Units[2]		Equivalent Units[2]
Firm orders – USA	$ 1,254,397	2,541	$ 676,266	1,525	$ 585,517	1,305
Firm orders – Canada	81,899	207	64,578	147	72,390	171
Total firm orders	1,336,296	2,748	740,844	1,672	657,907	1,476
Options – USA	3,146,811	6,784	1,787,685	4,320	2,204,229	5,286
Options – Canada	152,127	358	145,090	333	139,275	335
Total options	3,298,938	7,142	1,932,775	4,653	2,343,504	5,621
Total backlog	$ 4,635,234	9,890	$ 2,673,619	6,325	$ 3,001,411	7,097

Equivalent Units in Backlog	**39 Weeks Ended September 29, 2013**		52 Weeks Ended December 30, 2012		52 Weeks Ended January 1, 2012	
	Firm orders	Options	Firm orders	Options	Firm orders	Options
Beginning of period	1,672[5]	4,653[6]	1,476[5]	5,621[6]	1,897[5]	6,815[6]
New orders	1,703	3,245	882	738	182	477
NABI acquired backlog	551	608	—	—	—	—
Options exercised	378	(378)	970	(970)	1,208	(1,208)
Shipments	(1,556)	—	(1,656)	—	(1,811)	—
Cancelled/expired	—	(986)	—	(736)	—	(463)
End of period	2,748[5]	7,142[6]	1,672[5]	4,653 [6]	1,476[5]	5,621[6]

In 2013 YTD a total of 986 option EUs expired. The maximum term for a contract permitted by the FTA is five years.

Remaining options included in the total backlog will expire, if not exercised, as follows:

2013 Q4	1,761 [6]
2014	1,668
2015	866
2016	222
2017	663
2018	1,962
Total options	7,142 [6]

(2) One equivalent unit or "EU" represents one 30-foot, 35-foot or 40-foot heavy-duty transit bus. One 60-foot articulated bus represents two equivalent units or "EUs".

(3) Net earnings (loss) per share (basic) have been retrospectively adjusted to reflect the 10:1 share consolidation that occurred on September 30, 2011.

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

(5) Included in the Company's total firm order backlog are 240 EUs under a major U.S. customer award. Based on discussions with this customer, it is uncertain whether any of these 240 EUs will enter the Company's production schedule. Management expects to remove this amount from the backlog.

(6) Included in the Company's total option backlog are 1,560 option EUs under a major U.S. customer award. Based on discussions with this customer, it is uncertain whether any of these 1,560 option EUs will be exercised prior to their expected expiry in November 2013. Management expects to remove this amount from the backlog.

RECONCILIATION OF NET EARNINGS TO EBITDA AND ADJUSTED EBITDA

Management believes that EBITDA and Adjusted EBITDA are important measures in evaluating the historical operating performance of the Company. However, EBITDA and Adjusted EBITDA are not recognized earnings measures under IFRS and do not have standardized meanings prescribed by IFRS. Accordingly, EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Readers of this MD&A are cautioned that EBITDA and Adjusted EBITDA should not be construed as alternatives to net earnings or loss determined in accordance with IFRS as indicators of the Company's performance, or cash flows from operating activities as a measure of liquidity and cash flow. The Company defines and has computed EBITDA and Adjusted EBITDA as described under "Definitions of Earnings from Operations, EBITDA, Adjusted EBITDA and Free Cash Flow" above. The following tables reconcile net earnings or losses and cash flow from operations to EBITDA and Adjusted EBITDA based on the historical consolidated financial statements of the Company for the periods indicated.

(Unaudited, U.S. dollars in thousands)	**13-Weeks Ended September 29, 2013**	13-Weeks Ended September 30, 2012	**39-Weeks Ended September 29, 2013**	39-Weeks Ended September 30, 2012	**52-Weeks Ended September 29, 2013**	52-weeks Ended September 30, 2012
Net earnings	$ 7,832	$ 1,523	$ 13,029	$ 5,361	$ 16,958	$ 20,993
Addback[1]						
Income taxes	4,191	1,501	2,635	518	2,840	11,772
Finance cost	3,575	3,916	11,108	11,815	14,443	16,792
Amortization	7,868	6,069	20,697	17,990	27,033	24,298
Loss on disposal of property, plant and equipment	—	—	—	—	—	35
Fair value adjustment to embedded derivatives	—	—	—	1,395	—	85
Unrealized foreign exchange (gain) loss on non-current monetary items and forward foreign exchange contracts	(1,756)	880	360	1,147	616	(535)
EBITDA[2]	21,710	13,889	47,829	38,226	61,890	73,440
Costs associated with assessing strategic and corporate initiatives[7]	1,031	183	5,414	352	5,804	366
Loss on exercise of redemption right[5]	—	—	—	5,530	—	5,530
Loss on debt repurchase[6]	—	—	—	—	—	1,157
Realized (unrealized) investment tax credits[8]	1,190	—	3,262	504	3,262	(20,026)
Past service pension costs[3]	—	—	—	1,762	—	1,762
Non-recurring transitional costs relating to business acquisitions[9]	385	—	1,152	—	1,152	—
Stock-based compensation	100	—	198	—	198	—
Adjusted EBITDA[2]	$ 24,416	$ 14,072	$ 57,855	$ 46,374	$ 72,306	$ 62,229

RECONCILIATION OF CASH FLOW TO EBITDA AND ADJUSTED EBITDA

(Unaudited, U.S. dollars in thousands)	**13-Weeks Ended September 29, 2013**	13-Weeks Ended September 30, 2012	**39-Weeks Ended September 29, 2013**	39-Weeks Ended September 30, 2012	**52-Weeks Ended September 29, 2013**	52-weeks Ended September 30, 2012
Net cash generated by (used in) operations	$ 16,364	$ 5,477	$ 32,481	$ 10,365	$ 51,113	$ (759)
Addback[1]						
Changes in non-cash working capital items	2,118	1,913	(10,475)	11,999	(21,945)	31,531
Defined benefit funding	2,235	1,495	6,557	4,029	9,864	5,139
Defined benefit expense	(659)	(439)	(1,963)	(3,866)	(2,401)	(4,318)
Interest paid	1,437	3,895	9,101	12,506	13,668	18,297
Loss on exercise of redemption right[5]	—	—	—	(5,530)	—	(5,530)
Loss on debt repurchase	—	—	—	—	—	(1,157)
Realized (unrealized) investment tax credits[8]	(2,445)	—	(4,517)	(504)	(4,517)	20,026
Stock-based compensation	(100)	—	(198)	—	(198)	—
Foreign exchange (loss) gain on cash held in foreign currency	(57)	2,086	689	2,183	656	2,675
Income taxes paid (recovered)[4]	2,817	(538)	16,154	7,044	15,650	7,536
EBITDA[2]	21,710	13,889	47,829	38,226	61,890	73,440
Costs associated with assessing strategic and corporate initiatives[7]	1,031	183	5,414	352	5,804	366
Loss on exercise of redemption right[5]	—	—	—	5,530	—	5,530
Loss on debt repurchase[6]	—	—	—	—	—	1,157
Realized (unrealized) investment tax credits[8]	1,190	—	3,262	504	3,262	(20,026)
Past service pension costs[3]	—	—	—	1,762	—	1,762
Non-recurring transitional costs relating to business acquisitions[9]	385	—	1,152	—	1,152	—
Stock-based compensation	100	—	198	—	198	—
Adjusted EBITDA[2]	$ 24,416	$ 14,072	$ 57,855	$ 46,374	$ 72,306	$ 62,229

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

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

(3) On March 31, 2012 the Company signed a new collective bargaining agreement with the Canadian Auto Workers (now known as Unifor) that included changes to the Company's defined benefit pension plan. The effect of the pension plan amendments were to increase the accrued benefit liability and the expected annual pension plan expense in the first quarter of 2012 ("2012 Q1") by $1,762 to reflect pension benefits provided to employees for past service.

(4) As a result of the Company's multinational corporate structure, income taxes paid are subject to high degrees of volatility due to the mix of U.S. and Canadian earnings. Income taxes paid in the first quarter of 2013 includes a $8.0 million payment of NFI's 2012 Canadian income tax liability and $1.2 million of fiscal 2013 tax installments as compared to no required payments in 2012 Q1 and Fiscal 2012.

(5) Normalized to exclude the non-recurring loss on exercise of the redemption right option on the 14% subordinated notes.

(6) Normalized to exclude the non-recurring loss related to the repurchase of a portion the 14% subordinated notes.

(7) Normalized to exclude non-recurring expenses related to the costs of assessing strategic and corporate initiatives, including amounts normalized to exclude non-recurring expenses related to acquiring Orion parts business and NABI.

(8) The Company recognizes ITCs in Adjusted EBITDA only during the period in which they are applied against income taxes payable. During 2013 Q3 the Company recognized $2,445 of ITCs, however a related contractual liability exists to a third party of $1,255.

(9) Normalized to exclude non-recurring expenses related to the transitional costs related to recently acquired Orion parts business and NABI.

SUMMARY OF FREE CASH FLOW

Management uses Free Cash Flow as a non-IFRS measure to evaluate the Company's operating performance and liquidity and to assess New Flyer's ability to pay dividends to common shareholders, service debt, and meet other payment obligations.

The Company generates its Free Cash Flow from operations, and management expects this will continue to be the case for the foreseeable future. Net cash flows generated by operating activities are significantly impacted by changes in non-cash working capital. The Company uses the Revolver to finance working capital and therefore has excluded the impact of working capital in calculating Free Cash Flow. As well, net cash generated by operating activities and net earnings are significantly affected by the volatility of current income taxes, which in turn produces temporary fluctuations in the determination of Free Cash Flow.

The following is a reconciliation of net cash generated by operating activities (an IFRS measure) to Free Cash Flow (a non-IFRS measure) based on the Company's historical financial statements. See "Definitions of Earnings from Operations, EBITDA, Adjusted EBITDA and Free Cash Flow".

(Unaudited, US dollars in thousands)	**13-Weeks Ended September 29, 2013**	13-Weeks Ended September 30, 2012	**39-Weeks Ended September 29, 2013**	39-Weeks Ended September 30, 2012	**52-Weeks Ended September 29, 2013**	52-weeks Ended September 30, 2012
Net cash generated by (used in) operating activities	$ 16,364	$ 5,477	$ 32,481	$ 10,365	$ 51,113	$ (759)
Changes in non-cash working capital items[3]	2,118	1,913	(10,475)	11,999	(21,945)	31,531
Interest paid[3]	1,437	3,895	9,101	12,506	13,668	18,297
Interest expense[3]	(2,582)	(3,736)	(8,470)	(11,658)	(11,365)	(16,810)
Income taxes paid (recovered)[3]	2,817	(538)	16,154	7,044	15,650	7,536
Current income tax expense[3]	(5,343)	(3,739)	(13,516)	(9,934)	(16,391)	(22,396)
Principal portion of finance lease payments	(403)	(582)	(1,617)	(1,856)	(2,179)	(2,520)
Cash capital expenditures[9]	(3,406)	(60)	(5,727)	(3,349)	(6,333)	(4,057)
Proceeds from sale of redundant assets	—	—	—	—	—	35
Non-recurring transitional costs relating to business acquisitions[10]	385	—	1,152	—	1,152	—
Costs associated with assessing strategic and corporate initiatives[8]	1,031	183	5,414	352	5,804	366
Past service pension costs[6]	—	—	—	1,762	—	1,762
Defined benefit funding[4]	2,235	1,495	6,557	4,029	9,864	5,139
Defined benefit expense[4]	(659)	(439)	(1,963)	(3,866)	(2,401)	(4,318)
Realized investment tax credits[11]	(1,255)	—	(1,255)	—	(1,255)	—
Foreign exchange (loss) gain on cash held in foreign currency[5]	(57)	2,086	689	2,183	656	2,675
Free Cash Flow (US$)[1]	12,682	5,955	28,525	19,577	36,038	16,481
U.S. exchange rate[2]	1.0358	0.9945	1.0301	1.0005	1.0441	0.9997
Free Cash Flow[1] (C$)	**13,136**	**5,922**	**29,385**	**19,587**	**37,628**	**16,476**
Free Cash Flow per Share (C$)[7]	0.2368	0.1334	0.5790	0.4414	0.7655	0.3713
Declared dividends on Shares (C$)	**8,112**	**7,508**	**22,594**	**26,591**	**29,084**	**36,134**
Declared dividends per Share (C$)[7]	$ 0.1462	$ 0.1692	$ 0.4452	$ 0.5992	$ 0.5917	$ 0.8142

(1) Free Cash Flow is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. Therefore, Free Cash Flow may not be comparable to similar measures presented by other issuers. See "Definitions of Earnings from Operations, EBITDA, Adjusted EBITDA and Free Cash Flow" above.

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

(3) Changes in non-cash working capital are excluded from the calculation of Free Cash Flow as these temporary fluctuations are managed through the Company's $115.0 million Revolver which is available for use to fund general corporate requirements including working capital requirements, subject to borrowing capacity restrictions. Changes in non-cash working capital are presented on the consolidated statements of cash flows net of interest and incomes taxes paid.

(4) The cash effect of the difference between the defined benefit expense and funding is included in the determination of cash from operating activities. This cash effect is excluded in the determination of Free Cash Flow as management believes that the defined benefit expense amount provides a more appropriate measure, as the defined benefit funding can be impacted by special payments to reduce the unfunded pension liability. The Company has adjusted amounts reported previously in the 2012 Q1 financial statements as a result of the retrospective application of the amendments to IAS 19, Employee Benefits. For details please refer to Note 2.4 of the Financial Statements.

(5) Foreign exchange gain (loss) on cash held in foreign currency is excluded in the determination of cash from operating activities under IFRS, however, because it is a cash item and management believes it should be included in the calculation of Free Cash Flow.

(6) On March 31, 2012 the Company signed a new collective bargaining agreement with the Canadian Auto Workers that included changes to the Company's defined benefit pension plan. The effect of the pension plan amendments was to increase the accrued benefit liability and the expected annual pension plan expense in 2012 Q1 by $1,762 to reflect pension benefits provided to employees for past service.

(7) Per Share calculations for Free Cash Flow (C$) and declared dividends (C$) are determined by dividing these amounts by the total of all issued and outstanding Shares using the weighted average over the period. The weighted average number of Shares outstanding for 2013 Q3 was 55,466,904, 50,749,954 for 2013 YTD and 49,157,233 for the 52-week period ended September 29, 2013. The weighted average number of Shares outstanding for 2012 Q3, 2012 YTD and the 52-week period ended September 30, 2012 was 44,379,070 in each case.

(8) Normalized to exclude non-recurring expenses related to the costs of assessing strategic and corporate initiatives.

(9) Cash capital expenditures do not include property, plant and equipment leased or purchased using funds borrowed from the delayed draw portion of the Credit Facility or included in the Orion parts business acquisition.

(10) Normalized to exclude non-recurring expenses related to the transitional costs related to recently acquired Orion parts business and NABI.

(11) The Company recognizes ITCs during the period in which they are applied against income taxes payable. During 2013 Q3 the Company recognized $2,445 of ITCs, however a related contractual obligation exists to a third party of $1,255.

Dividend Policy

NFI's board of directors (the "Board") intends to have a common share dividend policy that is consistent with New Flyer's financial performance and the desire to retain certain cash flows to support the ongoing requirements of the business and to provide the financial flexibility to pursue revenue diversification and growth opportunities.

On August 8, 2012, the Board set an annual dividend rate of C$0.585 per Share effective for all dividends declared after that date. The Board expects to maintain these dividends on a monthly basis although such distributions are not assured.

Compared to other common share issuers listed on the TSX, the Board believes this level of dividend provides investors with an attractive level of current income.

Currency Impact on the Company's Reported Results

The Financial Statements are presented in U.S. dollars. New Flyer operates in both the United States and Canada and, as a result, its combined reported results are impacted by fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar. 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. Management's strategy is to mitigate foreign currency exposure based on net cash flow rather than Adjusted EBITDA.

As at September 29, 2013, 6.1% (December 30, 2012: 8.7%) of the Company's firm order backlog consisted of orders representing Canadian dollar-denominated revenue. Based on this current backlog position, the production schedule and the Company's historically stable Canadian dollar-denominated operating costs, management expects the Company to generate a Canadian dollar net liability position during the remainder Fiscal 2013. The Company managed the Canadian dollar net asset position during 2013 YTD by selling Canadian dollars in exchange for U.S. dollars while entering into foreign exchange forward contracts to buy Canadian dollars.

The settlements of the forward contracts were recorded as realized foreign exchange gains or losses in net earnings for the reported periods as the Company has elected not to use hedge accounting. During 2013 Q3, the Company recorded realized foreign exchange loss of $0.3 million (2012 Q3: $0.5 million gain) relating specifically to settlements of the forward contracts.

At September 29, 2013, the Company had $29.0 million of foreign exchange forward contracts to buy Canadian dollars that range in expiry dates from October 2013 to March 2014 and $5.8 million foreign exchange forward contracts to buy Euros that range in expiry dates from October 2013 to December 2013. The related asset of $0.1 million (2012: $0.1 million liability) is recorded on the consolidated statements of financial position as a current derivative financial instruments liability and the corresponding change in the fair value of the foreign exchange forward contracts has been recorded in the consolidated statements of net earnings and comprehensive income (loss).

Fiscal and Interim Periods

The Company's fiscal year is divided in quarters. The following table summarizes the number of calendar and available production weeks in the fiscal and interim periods presented for the Company:

	Period from December 31, 2012 to December 29, 2013 ("Fiscal 2013")			Period from January 2, 2012 to December 30, 2012 ("Fiscal 2012")		
	Period End Date	# of Calendar Weeks	# of Available Production Weeks	Period End Date	# of Calendar Weeks	# of Available Production Weeks
Quarter 1	March 31, 2013	13	12.4	April 1, 2012	13	12.6
Quarter 2	June 30, 2013	13	12.8	July 1, 2012	13	12.6
Quarter 3	September 29, 2013	13	12.4	September 30, 2012	13	12.4
Quarter 4	December 29, 2013	13	12.0	December 30, 2012	13	12.0
Fiscal year	December 29, 2013	52	49.6	December 30, 2012	52	49.6

An available production week equals five days of production, excluding any statutory holidays.

Results of Operations

The Company's operations are divided into two business segments: bus manufacturing operations and aftermarket operations. The discussion below with respect to revenue, operating costs and expenses and Earnings from Operations has been divided between the bus manufacturing and aftermarket operations segments.

(U.S. dollars in thousands)	2013 Q3 (13-Weeks)	2012 Q3 (13-Weeks)	2013 YTD (39-Weeks)	2012 YTD (39-Weeks)
Bus Manufacturing Revenue	$ 250,625	$ 179,336	$ 677,986	$ 572,938
Aftermarket Revenue	58,331	29,085	147,017	90,107
Total Revenue	$ 308,956	$ 208,421	$ 825,003	$ 663,045
Earnings from Operations[1]	13,842	7,820	27,132	25,766
Earnings before interest and income taxes	15,598	6,940	26,772	17,694
Earnings before income taxes	12,023	3,024	15,664	5,879
Net earnings for the period	7,832	1,523	13,029	5,361

(1) "Earnings from Operations" is not a recognized earnings measure and does not have a standardized meaning prescribed by IFRS. Therefore, Earnings from Operations may not be comparable to similar measures presented by other issuers. See "Definitions of Earnings from Operations, EBITDA, Adjusted EBITDA and Free Cash Flow" above. Management believes that Earnings from Operations is a useful supplemental measure in evaluating performance of NFI.

Revenue

The Company generated consolidated revenue of $309.0 million for 2013 Q3, an increase of 48.2% compared to consolidated revenue for 2012 Q3 of $208.4 million, and consolidated revenue for 2013 YTD of $825.0 million, an increase of 24.4% from consolidated revenue for 2012 YTD of $663.0 million.

Revenue from bus manufacturing operations for 2013 Q3 was $250.6 million, an increase of 39.8% from $179.3 million in 2012 Q3, and revenue of $678.0 million for 2013 YTD increased 18.3% from $572.9 million for 2012 YTD. The increase in 2013 Q3 revenue primarily resulted from a 49.5% increase in total bus deliveries of 577 EUs in 2013 Q3 compared to 2012 Q3 deliveries of 386 EUs, offset by a 6.5% decrease in average selling price per EU in 2013 Q3 compared to 2012 Q3. The average selling price per EU in 2013 Q3 was $434.4 thousand which decreased compared to $464.6 thousand in 2012 Q3. Bus deliveries in 2013 YTD totaled 1,556 EUs, which also increased 22.6% compared to 1,269 EUs in 2012 YTD, while the average selling price per EU in 2013 YTD was $435.7 thousand, a decrease from $451.5 thousand in 2012 YTD. The average selling price has decreased as a result of sales mix when comparing the two periods. The increased deliveries were as a result of including NABI deliveries effective June 21, 2013.

Revenue from aftermarket operations in 2013 Q3 was $58.3 million, an increase of 100.6% compared to $29.1 million in 2012 Q3. Revenue from aftermarket operations for 2013 YTD was $147.0 million, an increase of 63.2% compared to $90.1 million in 2012 YTD. The increase in aftermarket operations revenue is primarily a result of increased volumes including incremental revenue from the Orion parts business subsequent to the March 1, 2013 acquisition date and the NABI parts business subsequent to June 21, 2013.

Cost of sales

The consolidated cost of sales for 2013 Q3 of $277.3 million increased by 44.9% from 2012 Q3 consolidated cost of sales of $191.3 million. 2013 YTD consolidated cost of sales of $747.2 million increased by 22.8% from 2012 YTD of $608.2 million.

Costs of sales from bus manufacturing operations consist of direct contract costs and manufacturing overhead. The cost of sales from bus manufacturing operations for 2013 Q3 was $232.0 million (92.6% of revenue from bus manufacturing operations) compared to $169.4 million (94.5% of revenue from bus manufacturing operations) in 2012 Q3, an increase of 37.0%. This increase in cost of sales primarily relates to 49.5% more deliveries in 2013 Q3 as compared to 2012 Q3, offset by a lower cost mix of buses manufactured when comparing the two periods. The cost of sales from bus manufacturing operations of $633.8 million (93.5% of revenue from bus manufacturing operations) in 2013 YTD increased by 16.9% as compared to $541.9 million (94.6% of revenue from bus manufacturing operations) in 2012 YTD.

The cost of sales from aftermarket operations of $45.3 million (77.7% of aftermarket operations revenue) in 2013 Q3 increased 106.9% compared to $21.9 million (75.3% of aftermarket operations revenue) in 2012 Q3 and $113.4 million (77.1% of aftermarket operations

revenue) in 2013 YTD as compared to $66.3 million (73.9% of aftermarket operations revenue) in 2012 YTD, representing an increase of 71.0%, primarily as a result of the increase in sales volumes.

Selling, general and administrative costs and other operating expenses ("SG&A")

The consolidated SG&A for 2013 Q3 of $17.5 million increased 72.7% compared with $10.1 million in 2012 Q3. The increase in 2013 Q3 SG&A is primarily a result of the addition of NABI and $1.0 million of incremental costs to explore and assess strategic and corporate initiatives. Consolidated SG&A expenses for 2013 YTD were $50.8 million which increased 61.0% compared to $31.5 million in 2012 YTD primarily as a result of $5.1 million of incremental costs to explore and assess strategic and corporate initiatives, $4.6 million of incremental SG&A expenses for the recently acquired NABI operations, $1.2 million of non-recurring transitional costs relating to business acquisitions, $6.5 million increased general SG&A for inflation and to support ongoing operations and $2.1 million of increased expenses relating to the long-term incentive plan due to appreciation in stock price and the new stock option plan of NFI.

Realized foreign exchange loss/gain

In 2013 Q3, the Company recognized a net realized loss of $0.4 million compared with a net realized gain of $0.8 million in 2012 Q3. During 2013 YTD the Company recognized a net realized gain of $0.1 million as compared with a net realized gain of $2.5 million in 2012 YTD. During 2012 YTD the Company benefited from a greater amount of favourable settlements of foreign exchange contracts which resulted in an increased realized foreign exchange gain as compared to 2013 YTD.

Earnings from operations

Consolidated Earnings from Operations for 2013 Q3 in the amount of $13.8 million (4.5% of revenue) increased 77.0% compared to Earnings from Operations in 2012 Q3 of $7.8 million (3.8% of revenue). 2013 YTD consolidated Earnings from Operations were $27.1 million (3.3% of revenue), which represents a 5.3% increase as compared to $25.8 million (3.9% of revenue) in 2012 YTD.

The earnings from bus manufacturing operations (including amortization and depreciation) for 2013 Q3 were $8.4 million (1.0% of bus manufacturing revenue), an increase of 155.9% compared to earnings of $3.3 million for 2012 Q3 (0.4% of bus manufacturing revenue).This increase is primarily due to the addition of NABI bus deliveries and the $1.2 million of realized investment tax credits when comparing the two periods. 2013 YTD earnings from bus manufacturing operations were $11.8 million (1.7% of revenue), an increase of 12.7% compared to $10.5 million (1.8% of revenue) in 2012 YTD.

The earnings from aftermarket operations of $5.4 million (9.3% of aftermarket revenue) in 2013 Q3 increased 19.9% compared to 2012 Q3 earnings of $4.5 million (15.5% of aftermarket revenue). 2013 Q3 earnings from aftermarket operations increased primarily due to the contribution from the Orion and NABI's parts operations. In 2013 YTD, the earnings from aftermarket operations were $15.4 million (10.4% of aftermarket revenue), compared to $15.3 million (17.0% of aftermarket revenue) in 2012 YTD. The decrease in margin percentage is primarily due to the continued pricing pressure during the period.

Unrealized foreign exchange gain/loss

In 2013 Q3, the Company recognized a net unrealized gain of $1.8 million compared to a net unrealized loss of $0.9 million in 2012 Q3. These results consist of the following:

(Unaudited, U.S. dollars in thousands)	2013 Q3	2012 Q3	2013 YTD	2012 YTD
Unrealized loss on Canadian-denominated long-term debt	$ —	$ 1,823	$ —	$ 1,702
Unrealized (gain) loss on forward foreign exchanges contracts	(1,492)	(185)	(125)	27
Unrealized (gain) loss on other non-monetary assets/liabilities	(264)	(758)	485	(582)
	$ (1,756)	$ 880	$ 360	$ 1,147

Earnings before interest and income taxes ("EBIT")

In 2013 Q3, the Company recorded EBIT of $15.6 million compared to EBIT of $6.9 million in 2012 Q3. EBIT has been impacted by non-cash and non-recurring items as follows:

(Unaudited, U.S. dollars in thousands)	2013 Q3	2012 Q3	2013 YTD	2012 YTD
Non-cash and non-recurring charges (recovery):				
Costs associated with assessing strategic and corporate initiatives	$ 1,031	$ 183	$ 5,414	$ 352
Fair value adjustment to embedded derivatives	—	—	—	1,395
Unrealized foreign exchange loss (gain)	(1,756)	880	360	1,147
Past service pension costs	—	—	—	1,762
Stock-based compensation	100	—	198	—
Non-recurring transitional costs relating to business acquisitions	385	—	1,152	—
Loss on exercise of redemption right	—		—	5,530
Amortization	7,868	6,069	20,697	17,990
Total non-cash and non-recurring charges:	$ 7,628	$ 7,132	$ 27,821	$ 28,176

Absent these non-cash charges/recoveries, the 2013 Q3 EBIT would have been $23.2 million compared to $14.1 million in 2012 Q3.

Finance costs

The finance costs for 2013 Q3 were $3.6 million, a decrease of 8.7% when compared to $3.9 million in 2012 Q3, while the finance costs in 2013 YTD of $11.1 million decreased 6.0% compared to $11.8 million in 2012 YTD, primarily as a result of the capital structure conversion whereby the Company repurchased the 14% Subordinated Notes with proceeds from the $65.0 million issuance of 6.25% Debentures and refinanced the senior credit facility with lower interest rates.

Earnings before income taxes ("EBT")

EBT for 2013 Q3 of $12.0 million improved compared to EBT of $3.0 million in 2012 Q3. Similarly, EBT for 2013 YTD of $15.7 million improved compared to EBT of $5.9 million in 2012 YTD. The difference in the EBT between these periods results from the increased earnings from operations and reduction in finance costs.

Income tax expense

The income tax expense for 2013 Q3 was $4.2 million, consisting of $5.3 million of current income tax expense and $1.1 million of deferred income tax expense recovered. In comparison, the income tax expense for 2012 Q3 was $1.5 million, which consisted of $3.7 million of current income tax expense and $2.2 million of deferred income tax expense recovered. The income tax expense for 2013 YTD was $2.6 million, consisting of $13.5 million of current income tax expense and $10.9 million of deferred income tax expense recovered. In comparison, the income tax expense for 2012 YTD was $0.5 million, consisting of $9.9 million of current income tax expense and $9.4 million of deferred income tax expense recovered.

Net earnings

The Company reported net earnings of $7.8 million in 2013 Q3, an increase compared to net earnings of $1.5 million in 2012 Q3, primarily as a result of $6.0 million increase in earnings from operations and the favourable impact caused by foreign currency translation which resulted from the weakening Canadian dollar, offset somewhat by increased income taxes. Similarly, 2013 YTD net earnings of $13.0 million increased compared to 2012 YTD net earnings of $5.4 million.

Cash Flow

The cash flows of the Company are summarized as follows:

(Unaudited, U.S. dollars in thousands)	2013 Q3	2012 Q3	2013 YTD	2012 YTD
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	$ 22,736	$ 10,747	$ 47,261	$ 41,914
Interest paid	(1,437)	(3,895)	(9,101)	(12,506)
Income taxes (paid) recovered	(2,817)	538	(16,154)	(7,044)
Net cash earnings	18,482	7,390	22,006	22,364
Changes in non-cash working capital items	(2,118)	(1,913)	10,475	(11,999)
Cash flow from operating activities	16,364	5,477	32,481	10,365
Cash flow from financing activities	(15,639)	(68,504)	79,212	(10,576)
Cash flow from investing activities	$ (3,622)	$ (3,189)	$ (100,045)	$ (9,040)

Cash flows from operating activities

The 2013 Q3 net operating cash inflow of $16.4 million is the result of $18.5 million of net cash earnings offset by an increase in non-cash working capital of $2.1 million, compared to 2012 Q3 net operating cash inflow of $5.5 million which is the result of $7.4 million of net cash earnings offset by an increase in non-cash working capital of $1.9 million.

The 2013 YTD net operating cash inflow of $32.5 million is the result of $22.0 million of net cash earnings and a decrease in non-cash working capital of $10.5 million, compared to 2012 YTD net operating cash inflow of $10.4 million which is the result of $22.4 million of net cash earnings offset by an increase in non-cash working capital of $12.0 million.

Cash flow from financing activities

The Company's financing activities resulted in a net cash outflow of $15.6 million and $68.5 million for 2013 Q3 and 2012 Q3, respectively. The cash outflow during 2013 Q3 primarily relates to the net repayment of $7.5 million of the Revolver and $7.8 million for dividends. The cash outflow during 2012 Q3 primarily relates to the $62.4 million cash used to repay the remaining subordinated notes and $8.5 million for dividends offset by $3.0 million draw on the Revolver.

The net cash inflow generated by financing activities of $79.2 million during 2013 YTD primarily relates to $111.7 million of cash received from Shares issued to Marcopolo offset by the net repayment of $9.4 million of the Revolver and $21.5 million for dividends. The net cash outflow used in financing activities during 2012 YTD of $10.6 million primarily relates to the $61.2 million cash generated by issuance of Debentures (net of issuance costs) and $20.0 million draw on the Revolver offset by the $62.4 million cash used to repay the remaining subordinated notes and $27.5 million for dividends.

Cash flow from investing activities

2013 Q3 investing activities resulted in a net cash outflow of $3.6 million compared to $3.2 million in 2012 Q3. The Company's investing activities for 2013 YTD included a net cash outflow of $98.5 million to acquire NABI and Orion aftermarket parts business.

The composition of the property, plant and equipment capital ("PPE") expenditures was as follows:

(Unaudited, U.S. dollars in thousands)	2013 Q3	2012 Q3	2013 YTD	2012 YTD
PPE expenditures	$ 3,716	$ 3,558	$ 7,351	$ 9,570
Less PPE expenditures funded as part of Orion parts business	—	—	(394)	—
Less PPE expenditures funded by capital leases	(132)	(398)	(555)	(693)
Acquisition of PPE reported on statement of cash flows	3,584	3,160	6,402	8,877
Less PPE expenditures funded by senior term loan for asset acquisitions *	(178)	(3,100)	(675)	(5,528)
Cash PPE expenditure	3,406	60	5,727	3,349
Comprised of:				
Maintenance PPE expenditures	714	60	2,051	810
Growth PPE expenditures	2,692	—	3,676	2,539
	$ 3,406	$ 60	$ 5,727	$ 3,349

*Term loan was drawn in fiscal 2012. The proceeds have been applied to PPE expenditures during 2013 YTD and 2012 YTD.

Liquidity and Capital Resources

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

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

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

As a result of the contract solicitation process in the bus manufacturing industry, bus purchase contracts are customer specific and contain varied terms and conditions, including terms relating to the timing of payments made under such contracts. As such, the timing of the payments of the Company's accounts receivable is not always consistent or predictable, which may result in the Company drawing on its Revolver in order to meet its working capital requirements. During 2013 Q3, the Company was not materially impacted as a result of some delayed payments for invoiced orders, which resulted from the recent U.S. federal government furlough, all of which have been subsequently received.

The Company generated Free Cash Flow of C$13.1 million during 2013 Q3 while declaring dividends of C$8.1 million as compared to C$5.9 million of Free Cash Flow generated in 2012 Q3 and declared dividends of C$7.5 million. The amount of dividends declared increased in 2013 Q3 as a result of issuing 11.1 million common shares in 2013 YTD to strategic investor Marcopolo SA. During 2013 YTD, New Flyer generated Free Cash Flow of C$29.4 million while declaring dividends of C$22.6 million as compared to C$19.6 million of Free Cash Flow generated in 2012 YTD and declared dividends of C$26.6 million. The amount of dividends declared in 2013 YTD is lower than 2012 YTD as a result of reducing the annual dividend rate to C$0.585 per common share, effective for all dividends declared after August 20, 2012. Management believes that sufficient Free Cash Flow will be generated to maintain the current dividend rate.

The September 29, 2013 liquidity position of $90.5 million is comprised of available cash of $13.5 million and $77.0 million available under the Revolver as compared to $83.4 million at June 30, 2013. As at September 29, 2013, there were $12.0 million of direct borrowings and $26.0 million of outstanding letters of credit related to the $115.0 million Revolver. Management believes that these funds, together with the cash generated from the Company's operating activities will provide the Company with sufficient liquidity

and capital resources to meet its current and future financial obligations as they come due, as well as provide funds for its financing requirements, capital expenditures, dividend payments and other needs for the foreseeable future.

During 2013 Q3, the Company improved its liquidity position by $7.1 million by generating cash from operating activities of $16.4 million which offset the $11.9 million of cash used for investing and financing activities and a $2.6 million reduction of letters of credit outstanding. The $7.5 million repayment of the Revolver during 2013 Q3 does not factor into the change in liquidity position.

There are certain financial covenants under the Credit Facility that must be maintained. These financial covenants include an interest coverage ratio and total leverage ratio. At September 29, 2013, the Company is in compliance with the ratios.

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

	September 29, 2013	June 30, 2013	December 30, 2012
Total Leverage Ratio (must be less than 3.25)	1.78	1.89	2.52
Interest Coverage Ratio (must be greater than 3.00)	7.83	6.81	4.23

Interest rate risk

In connection with the Credit Facility, the Company has rolled over the pre-existing interest rate swap designed to hedge floating rate exposure for the term of the Credit Facility on $142 million of drawn term loan. The new interest rate swap fixes the interest rate at 1.46% plus the applicable interest margin until April 2017. In comparison, the interest rate swap in place prior to the closing of the Credit Facility fixed the interest rate at 1.90% plus the applicable interest margin until April 2014. The fair value of the interest rate swap liability of $2.9 million at September 29, 2013 (December 30, 2012: $2.0 million) was recorded on the consolidated statements of financial position as a derivative financial instruments liability and the change in fair value has been recorded as finance costs for the reported period.

Credit risk

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

The carrying amount of accounts receivable is reduced through the use of an allowance account and the amount of the loss is recognized in the earnings statement within SG&A. When a receivable balance is considered uncollectible, it is written off against the allowance for accounts receivable. Subsequent recoveries of amounts previously written off are credited against SG&A in the consolidated statements of net earnings and comprehensive income.

The following table details the aging of the Company's receivables and related allowance for doubtful accounts:

	September 29, 2013	December 30, 2012
Current, including holdbacks	$ 140,959	$ 104,759
Past due amounts but not impaired		
1 – 60 days	15,374	6,251
Greater than 60 days	4,577	2,525
Less: allowance for doubtful accounts	(138)	(75)
Total accounts receivables, net	$ 160,772	$ 113,460

The recent U.S. federal government furlough had interrupted most FTA activity, including processing bus procurement grants and making payments to grantees. The Company was not materially impacted as a result of some delayed payments for invoiced orders, which have been subsequently received.

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

Commitments and Contractual Obligations

Commitments

The following table outlines the Company's maturity analysis of the undiscounted cash flows of certain non-current financial liabilities and leases as at September 29, 2013:

U.S. dollars in thousands	Total	2013	2014	2015	2016	2017	Post 2017
Senior term loan	$ 160,750	$ 2,500	$ 5,000	$ 5,000	$ 5,000	$ 143,250	$ —
Convertible debentures	81,248	2,031	4,062	4,062	4,062	67,031	—
Other long-term liabilities	11,250	1,000	3,000	3,000	2,250	1,000	1,000
Finance leases	3,380	390	1,353	715	574	289	59
Operating leases	50,691	1,480	5,896	5,574	5,155	5,212	27,374
	$ 307,319	$ 7,401	$ 19,311	$ 18,351	$ 17,041	$ 216,782	$ 28,433

As at September 29, 2013, outstanding surety bonds guaranteed by the Company amounted to $150.4 million, representing a decrease compared to $169.7 million at June 30, 2013. The estimated maturity dates of the surety bonds outstanding at September 29, 2013 range from October 2013 to October 2016.

The Company has not recorded a liability under these guarantees, as management believes that no material events of default exist under any applicable contracts with customers.

Under the Credit Facility, the Company has established a letter of credit sub-facility of $55.0 million. As at September 29, 2013, letters of credit amounting to $26.0 million (December 30, 2012: $14.2 million) remained outstanding under the letter of credit facility as security for the contractual obligations of the Company.

Stock Option Plan

On March 21, 2013, the Board adopted a Share Option Plan (the "Option Plan") for NFI, under which employees of NFI and certain of its affiliates ("participants") may receive grants of share options. Directors who are not employed with NFI are not eligible to participate in the Option Plan. A maximum of 3,600,000 Shares are available for issuance under the Option Plan. Also on March 21, 2013, the Board approved grants of an aggregate of 490,356 share options (the "Options") to eleven executives, effective March 26, 2013. However, in accordance with the policies of the TSX, NFI was required to submit the Option Plan for approval by NFI's shareholders. The Option Plan and the ratification of the grant of the Options were approved by NFI's shareholders at the annual general meeting on May 9, 2013. The Options will expire on March 26, 2021. All of the Options have been granted to insiders. The Options will become vested as to one-quarter on the first anniversary of the grant date and an additional one-quarter on the second, third and fourth anniversary of the grant date. Each Option must be exercised no later than eight years after the grant date, at which time each Option will expire. No Options may be granted under the Option Plan after March 21, 2023.

All 490,356 originally granted Options are still outstanding at September 29, 2013. None of these Options have been vested or forfeited.

Standards recently adopted

IAS 19 (Revised 2011) Employee Benefits:

The main changes to the standard are the elimination of the corridor approach (with all changes to the defined benefit obligation and plan assets recognized when they occur) and calculation of net interest using a high quality corporate bond yield. Retrospective application is required with certain exceptions, effective January 1, 2013.

In preparing the 2012 YTD comparative information, the Company has adjusted amounts reported previously in the interim condensed consolidated financial statements as a result of the retrospective application of the amendments to IAS 19, Employee Benefits. A statement of financial position as at January 1, 2012 is included as a result of the Company's retrospective application of the amendments to IAS 19, Employee Benefits. Refer to March 31, 2013 interim condensed consolidated financial statements for details regarding adjusted amounts.

IFRS 7 Financial Instruments: Disclosures, Amendment regarding Disclosures with respect to Offsetting:

The disclosure requirements have also been amended with respect to offsetting financial assets and financial liabilities to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. Retrospective application is required for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. There was no material impact to the financial statements as a result of adopting this standard.

IFRS 13 Fair Value Measurement:

IFRS 13 establishes a single framework for fair value measurement as required by other IFRS standards and is applicable to both financial and non-financial items that are required or permitted by other standards to be measured at fair value, effective January 1, 2013. Prospective application is required. The adoption of this new pronouncement will impact the Company's disclosures in the annual consolidated financial statements for the 52-week period ended December 29, 2013.

IAS 1 (Revised 2011) Presentation of Financial Statements:

Disclosure of other comprehensive income items between those that are recycled to profit or loss and those not recycled is required with retrospective application, effective for years beginning on or after July 1, 2012. There was no material impact to the financial statements as a result of adopting this standard.

IFRS 10 Consolidated Financial Statements:

The new standard uses control as the single basis of consolidation for all entities with three elements to control: power over an investee; exposure or rights to variable returns; and the ability to affect returns. Retrospective application is required, subject to certain transitional provisions, effective January 1, 2013. There was no material impact to the financial statements as a result of adopting this standard.

IFRS 11 Joint Arrangements:

The new standard classifies arrangements as either joint operations or joint ventures. All interests in joint ventures should now be accounted for based on the equity method. Transitional provisions vary depending on how an interest is classified under IAS 31, effective January 1, 2013. The adoption of this new pronouncement will impact the Company's disclosures in the annual consolidated financial statements for the 52-week period ended December 29, 2013.

IFRS 12 Disclosure of Interest in Other Entities:

IFRS 12 requires extensive disclosure relating to an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structure entities. The adoption of this new pronouncement will impact the Company's disclosures in the annual consolidated financial statements for the 52-week period ended December 29, 2013.

IAS 28 (as amended 2011) Investments in Associates:

The amended IAS 28 (2011) provides detailed guidance on the application of the equity method to associates, subsidiaries and joint ventures (previously excluded from this standard), effective January 1, 2013. There was no material impact to the financial statements as a result of adopting this standard.

Future Changes to Accounting Standards

The following recently issued accounting pronouncements represent a summary of the pronouncements that are likely to, or may at some future time, have an impact on the Company.

IFRS 9 Financial Instruments:

The International Accounting Standards Board is currently developing IFRS 9 which will replace IAS 39, the current standard for accounting for financial instruments. The standard is being completed in three separate phases. The impact of this new standard will

be assessed as the phases of the project are completed. The effective date is pending finalization of the impairment and classification and measurement phases of the project.

Controls and Procedures

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining internal controls over financial reporting ("ICFR"), as defined under rules adopted by the Canadian Securities Administrators. ICFR were designed under the supervision of, and with the participation of, the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). The Company's ICFR are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management, under the supervision of the CEO and CFO, evaluated the design of the Company's ICFR as of December 30, 2012 in accordance with the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and concluded that the Company's ICFR are effective.

The Company has limited its design of ICFR to exclude controls, policies and procedures of NABI, a business that the Company acquired not more than 365 days before the end of the financial period to which this MD&A relates.

Management believes there have been no changes in the Company's ICFR during 2013 Q3 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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

Disclosure Controls

Management is responsible for establishing and maintaining disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner and that information required to be disclosed is reported within time periods prescribed by applicable securities legislation. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. The Company has limited its design of disclosure controls and procedures to exclude controls, policies and procedures of NABI, a business that the Company acquired not more than 365 days before the end of the financial period to which this MD&A relates. The Company's CEO and CFO have concluded that disclosure controls and procedures as at December 30, 2012 were effective.

On June 21, 2013, the Company acquired 100% of the voting equity interest in NABI-Optima Holdings Inc. from an affiliate of Cerberus Capital Management, L.P. for cash consideration of approximately $80.0 million, virtually all for the satisfaction of affiliate debt. During the period between the June 21, 2013 acquisition date and September 29, 2013, NABI generated revenues of approximately $95.5 million and net earnings of approximately $1.4 million, which have been recorded in the unaudited interim condensed consolidated statements of net earnings and comprehensive income for the 39 week period ending September 29, 2013. A summary of the assets acquired and liabilities assumed is as follows:

(Unaudited, U.S. dollars in thousands)		
Current assets	$	118,373
Non-current assets		61,629
Current liabilities		(89,900)
Non-current liabilities		(10,102)
Cash purchase price	$	80,000

Interim Condensed Consolidated Financial Statements of

NEW FLYER INDUSTRIES INC.

September 29, 2013

(Unaudited)

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NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET EARNINGS AND COMPREHENSIVE INCOME (LOSS)
For the period ended September 29, 2013
(unaudited, in thousands of U.S. dollars except per share figures)

	13-Weeks Ended September 29, 2013	13-Weeks Ended September 30, 2012	**39-Weeks Ended September 29, 2013**	39-Weeks Ended September 30, 2012
Revenue (note 13)	$ 308,956	$ 208,421	$ 825,003	$ 663,045
Cost of sales (note 4)	277,254	191,280	747,214	608,191
Gross profit	31,702	17,141	77,789	54,854
Sales, general and administration costs and other operating expenses	17,475	10,117	50,779	31,546
Foreign exchange loss (gain)	385	(796)	(122)	(2,458)
Earnings from operations	13,842	7,820	27,132	25,766
Unrealized foreign exchange (gain) loss on non-current monetary items	(1,756)	880	360	1,147
Loss on exercise of redemption right	—	—	—	5,530
Fair value adjustment to embedded derivatives	—	—	—	1,395
Earnings before interest and income taxes	15,598	6,940	26,772	17,694
Finance costs				
Interest on long-term debt and convertible debentures	1,877	3,253	6,136	9,735
Accretion in carrying value of long-term debt and convertible debentures	531	359	1,680	605
Other interest and bank charges	705	483	2,334	1,923
Fair market value adjustment on interest rate swap	462	(179)	958	(448)
	3,575	3,916	11,108	11,815
Earnings before income tax expense	12,023	3,024	15,664	5,879
Income tax expense (note 5)				
Current income taxes	5,343	3,739	13,516	9,934
Deferred taxes recovered	(1,152)	(2,238)	(10,881)	(9,416)
	4,191	1,501	2,635	518
Net earnings for the period	$ 7,832	$ 1,523	$ 13,029	$ 5,361
Other comprehensive loss for the period, net of tax				
Actuarial loss on defined benefit pension plan– this item will not be reclassified subsequently to profit or loss	—	3,017	—	3,097
Total comprehensive income (loss) for the period	$ 7,832	$ (1,494)	$ 13,029	$ 2,264
Net earnings per share (basic) (note 9)	$ 0.14	$ 0.03	$ 0.26	$ 0.12
Net earnings per share (diluted) (note 9)	$ 0.14	$ 0.03	$ 0.26	$ 0.12

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

NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

September 29, 2013

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

	September 29, 2013	December 30, 2012	January 1, 2012 (note 2.4)
Assets			
Current			
Cash	$ 13,519	$ 11,182	$ 10,133
Accounts receivable (note 3,12e)	160,772	113,460	115,850
Income taxes recoverable	1,163	—	—
Inventories (note 4)	199,759	124,712	93,491
Derivative financial instruments (note 12b)	111	—	145
Prepaid expenses and deposits	9,729	4,724	5,077
	385,053	254,078	224,696
Property, plant and equipment	57,860	42,024	37,397
Embedded derivative instruments	—	—	3,684
Unused investment tax credits	18,745	23,262	23,766
Deferred tax assets (note 5)	52,580	49,332	36,558
Goodwill and intangible assets	574,219	528,528	544,361
	$ 1,088,457	$ 897,224	$ 870,462
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 212,254	$ 150,828	$ 152,207
Income taxes payable	—	6,756	4,964
Deferred revenue	42,551	19,190	1,897
Provision for warranty costs (note 15)	36,486	20,106	32,808
Current portion of long-term debt (note 6)	12,000	40,035	9,000
Derivative financial instruments	—	14	—
Current portion of deferred compensation obligation	—	—	1,404
Current portion of obligations under finance leases	1,230	1,857	2,377
	304,521	238,786	204,657
Accrued benefit liability	4,214	8,973	9,136
Obligations under finance leases	1,900	2,314	2,102
Deferred compensation obligation	3,830	1,233	262
Other long-term liabilities (note 17)	10,212	—	—
Deferred tax liabilities (note 5)	115,271	122,244	119,088
Long-term debt (note 6)	140,117	120,950	166,835
Convertible debentures (note 7)	57,917	56,760	—
Derivative financial instruments (note 12b,c)	2,934	1,976	2,811
	640,916	553,236	504,891
Commitments and contingencies (note 14)			
Shareholders' equity			
Share capital (note 8)	589,208	476,918	476,918
Stock option reserve (note 16)	199	—	—
Equity component of convertible debentures (note 7)	3,841	3,841	—
Accumulated other comprehensive loss	(6,490)	(6,490)	(4,851)
Deficit	(139,217)	(130,281)	(106,496)
	447,541	343,988	365,571
	$ 1,088,457	$ 897,224	$ 870,462

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

Authorized for issue by the board of directors on November 6, 2013.

NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended September 29, 2013

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

	Share Capital	Equity Component of Convertible Debentures (note 7)	Stock Option Reserve	Accumulated Other Comprehensive Loss	Deficit	Total Shareholders' Equity
Balance, January 1, 2012 (note 2.4)	$ **476,918**	$ **—**	$ —	$ **(4,851)**	$ **(106,496)**	$ **365,571**
Net earnings for the period	—	—	—	—	5,361	5,361
Other comprehensive loss for the period	—	—	—	(2,629)	—	(2,629)
Dividends declared on common shares	—	—	—	—	(26,555)	(26,555)
Equity component of convertible debentures (net of tax $1,421)	—	3,841	—	—	—	3,841
Balance, September 30, 2012	**476,918**	**3,841**	**—**	**(7,480)**	**(127,690)**	**345,589**
Net earnings for the period	—	—	—	—	3,929	3,929
Other comprehensive income for the period	—	—	—	990	—	990
Dividends declared on common shares	—	—	—	—	(6,520)	(6,520)
Balance, December 30, 2012	**476,918**	**3,841**	**—**	**(6,490)**	**(130,281)**	**343,988**
Net earnings for the period	—	—	—	—	13,029	13,029
Dividends declared on common shares	—	—	—	—	(21,965)	(21,965)
Share based compensation	—	—	199	—	—	199
Shares issued	113,782	—	—	—	—	113,782
Share issuance costs (net of tax $560)	(1,492)	—	—	—	—	(1,492)
Balance, September 29, 2013	$ **589,208**	$ **3,841**	$ **199**	$ **(6,490)**	$ **(139,217)**	$ **447,541**

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

NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the period ended September 29, 2013

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

	13-Weeks Ended September 29, 2013	13-Weeks Ended September 30, 2012	**39-Weeks Ended September 29, 2013**	39-Weeks Ended September 30, 2012
Operating activities				
Net earnings for the period	$ 7,832	$ 1,523	$ 13,029	$ 5,361
Income tax expense	4,191	1,501	2,635	518
Depreciation of plant and equipment	3,011	2,059	7,088	5,984
Amortization of intangible assets	4,857	4,010	13,609	12,006
Finance costs recognized in profit or loss	3,575	3,916	11,108	11,815
Unrealized foreign exchange (gain) loss on non-current monetary items	(1,756)	880	360	1,147
Foreign exchange loss (gain) on cash held in foreign currency	57	(2,086)	(689)	(2,183)
Share based compensation	100	—	198	—
Fair value adjustment to embedded derivatives	—	—	—	1,395
Realized investment tax credits	2,445	—	4,517	504
Loss on exercise of redemption right	—	—	—	5,530
Defined benefit expense	659	439	1,963	3,866
Defined benefit funding	(2,235)	(1,495)	(6,557)	(4,029)
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	22,736	10,747	47,261	41,914
Changes in non-cash working capital items (note 10)	(2,118)	(1,913)	10,475	(11,999)
Cash generated by operations before interest and income taxes paid	20,618	8,834	57,736	29,915
Interest paid	(1,437)	(3,895)	(9,101)	(12,506)
Income taxes recovered (paid)	(2,817)	538	(16,154)	(7,044)
Net cash generated by operating activities	16,364	5,477	32,481	10,365
Financing activities				
Repayment of obligations under finance leases	(403)	(582)	(1,617)	(1,856)
Proceeds from (repayment) issuance of long-term debt	(7,458)	3,000	(9,391)	20,000
Share issuance	—	—	113,782	—
Costs associated with share issuance	—	—	(2,051)	—
Repayment of subordinated notes	—	(62,449)	—	(62,449)
Proceeds from issue of convertible debentures	—	—	—	65,000
Costs associated with convertible debenture issuance	—	—	—	(3,789)
Dividends paid	(7,778)	(8,473)	(21,511)	(27,482)
Net cash (used in) generated by financing activities	(15,639)	(68,504)	79,212	(10,576)
Investing activities				
Net cash used in acquisition of NABI business (note 1.2)	—	—	(72,003)	—
Acquisition of Orion aftermarket parts business (note 1.3)	—	—	(20,608)	—
Acquisition of accounts receivables connected with purchase of Orion aftermarket parts business (note 1.3)	—	—	(5,920)	—
Acquisition of intangible assets	(38)	(29)	(5,112)	(163)
Acquisition of property, plant and equipment	(3,584)	(3,160)	(6,402)	(8,877)
Net cash used in investing activities	(3,622)	(3,189)	(110,045)	(9,040)
Effect of foreign exchange rate on cash	(57)	2,086	689	2,183
(Decrease) increase in cash	(2,954)	(64,130)	2,337	(7,068)
Cash — beginning of period	16,473	67,195	11,182	10,133
Cash — end of period	$ 13,519	$ 3,065	$ 13,519	$ 3,065

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

1. CORPORATE INFORMATION

New Flyer Industries Inc. ("NFI" or the "Company") was incorporated on June 16, 2005 under the laws of the Province of Ontario. NFI, with its recently acquired NABI Bus, LLC subsidiary, is the leading manufacturer of heavy-duty transit buses in the United States and Canada. The business also includes aftermarket parts and support including the sale of bus parts.

The Company's common shares (the "Shares") are listed on the Toronto Stock Exchange ("TSX") under the symbol "NFI" and the Company's 6.25% convertible unsecured subordinated debentures (the "Debentures") are listed on the TSX under the symbol "NFI.DB.U".

These unaudited interim condensed consolidated financial statements (the "Statements") were approved by the Company's board of directors on November 6, 2013.

1.1 Equity investment by Marcopolo

On January 23, 2013, Marcopolo S.A. ("Marcopolo") entered into an agreement with the Company to make a strategic investment of C$116.4 million to acquire 11,087,834 newly issued Shares, representing a 19.99% stake in the Company. Each Share was issued at a price of C$10.50 per Share. 4,925,530 Shares were issued to a wholly-owned Canadian subsidiary of Marcopolo on February 15, 2013 for aggregate consideration of C$51.7 million. On June 21, 2013, the Company issued the remaining 6,162,304 Shares to the Marcopolo subsidiary for proceeds of C$64.7 million.

1.2 Acquisition of NABI

On June 21, 2013, the Company acquired 100% of the voting equity interest in NABI-Optima Holdings Inc. ("NABI") from an affiliate of Cerberus Capital Management, L.P. for cash consideration of approximately $80.0 million, virtually all for the satisfaction of affiliate debt. The purchase price was funded by the proceeds from the C$64.7 million equity investment by Marcopolo and an additional $20 million that was drawn from the Company's renewed senior secured credit facility. The acquisition has been accounted for using the acquisition method. The fair values of the identifiable assets and liabilities acquired have been based on management's best estimates and valuation techniques as at June 21, 2013 (the "Acquisition Date"). The Company adjusted the preliminary purchase price allocation as set out below. The adjustments recorded resulted in an increase to goodwill of $1,442 from the amount previously reported.

	Original	Adjustments	Revised
Cash purchase price	$ 80,000	$ —	$ 80,000
Less: NABI's cash acquired	7,997	—	7,997
Net cash used in acquisition	72,003	—	72,003
Accounts receivable	54,493	(7,331)	47,162
Inventories	55,575	6,851	62,426
Prepaid expenses and deposits	788	—	788
Property, plant and equipment	15,558	—	15,558
Accounts payable and accrued liabilities	(62,734)	(962)	(63,696)
Deferred revenue	(10,794)	—	(10,794)
Provision for warranties	(15,410)	—	(15,410)
Other long-term liabilities	(10,102)	—	(10,102)
Net tangible assets acquired	27,374	(1,442)	25,932
Trade names	7,100	—	7,100
Patent and licenses	3,200	—	3,200
Customer relationships	26,000	—	26,000
Identifiable intangible assets acquired	36,300	—	36,300
Goodwill acquired	$ 8,329	$ 1,442	$ 9,771

1.2 Acquisition of NABI (Continued)

The Company operates the NABI bus and NABI parts operations of NABI under the entities NABI Bus, LLC and NABI Parts, LLC, respectively. Both companies are part of the New Flyer group of companies.

The goodwill acquired is largely attributable to the synergies and economies of scale expected from the combined businesses of NFI and NABI. This goodwill is expected to be deductible for tax purposes.

The estimated purchase price allocation remains subject to adjustments that could arise as a result of new information that would impact the determination of fair value of the assets acquired and liabilities assumed.

During the period between the June 21, 2013 acquisition date and September 29, 2013, NABI's operations generated revenues of approximately $95.5 million and net earnings of approximately $1.4 million, which have been recorded in these Statements. The net earnings amount reflects $3.4 million of transaction costs.

If NABI had been acquired on December 31, 2012, the incremental consolidated pro-forma revenue and income for the 39-week period ending September 29, 2013 would have been as follows:

	Results as stated	Incremental	Pro-forma results
Revenue	$ 825,003	$ 231,493	$ 1,056,496
Total comprehensive income	13,029	4,096	17,125

1.3 Acquisition of Orion aftermarket parts business

On March 1, 2013, New Flyer Industries Canada ULC ("NFI ULC") acquired from Daimler Buses North America Inc. certain assets and assumed customer and supplier contracts relating to the Orion aftermarket parts business for heavy-duty transit buses. The cash acquisition price was approximately $20.6 million. NFI ULC also purchased approximately $5.9 million of accounts receivables, which was subsequently fully collected. The purchase price was funded by the proceeds from the equity investment by Marcopolo. The acquisition has been accounted for using the acquisition method. The fair values of the identifiable assets acquired have been based on management's best estimates and valuation techniques as at March 1, 2013.

Cash purchase price	$ 20,608
Inventory	12,108
Equipment	394
Tangible assets acquired	12,502
License of Orion branded proprietary parts	908
Customer contracts and customer relationships	6,121
Identifiable intangible assets acquired	7,029
Goodwill acquired	$ 1,077

The transaction costs related to this acquisition was $1.2 million and was charged to the consolidated statements of net earnings and comprehensive income (loss).

The goodwill acquired is largely a result of the synergies and economies of scale expected from combining the operations of NFI aftermarket parts business and the purchased Orion aftermarket parts business. This goodwill is expected to be deductible for tax purposes.

The preliminary purchase price allocation of goodwill to the aftermarket operations was finalized during the 13-week period ended September 29, 2013 with no subsequent amendments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Statements are the same, except for the recently adopted International Financial Reporting Standards ("IFRS") standards as described in note 2.4. and the accounting policies related to the new share based payment plan, as those applied by the Company in its consolidated financial statements as at and for the 52-week period ended December 30, 2012 ("Fiscal 2012"). These Statements should be read in conjunction with the Company's Fiscal 2012 consolidated financial statements.

Share based payment transactions

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period in which the options vest. The offset to the recorded cost is to share-based payment reserve. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payment reserve is transferred to share capital. Upon expiry, the recorded value is transferred to deficit.

At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the consolidated statements of net earnings and comprehensive income (loss) such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve. Where the terms and conditions of options are modified, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statements of net earnings and comprehensive income (loss).

2.1 Statement of Compliance

The Statements are unaudited and have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all the information required for full annual financial statements.

2.2 Basis of preparation

The Statements were prepared on a going concern basis in accordance with IFRS which requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates.

In preparing these Statements, the significant judgements and estimates made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied by the Company in its consolidated financial statements for Fiscal 2012.

2.3 Principles of consolidation

The Statements include the accounts of all of the Company's subsidiaries: New Flyer Holdings, Inc., Transit Holdings, Inc. ("THI"), New Flyer of America Inc. ("NFAI"), NFI ULC, 1176846 Alberta ULC, TCB Enterprises, LLC, NABI Bus, LLC, NABI Parts, LLC, Transit Acquisition, LLC, Transit Parts Holdings, Inc. and Transit Finco, Inc.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Standards recently adopted

IAS 19 (Revised 2011) Employee Benefits:

The main changes to the standard are the elimination of the corridor approach (with all changes to the defined benefit obligation and plan assets recognized when they occur) and calculation of net interest using a high quality corporate bond yield. Retrospective application is required with certain exceptions, effective January 1, 2013. As a result of the retrospective application, the following are the impacts on the Company's net earnings and total comprehensive income for the 39-week period ended September 30, 2012 ("2012 YTD").

Net earnings and total comprehensive income (loss) impact		39-weeks ended September 30, 2012
Increase in cost of sales	$	(750)
Decrease in income taxes		282
Decrease in net earnings		(468)
Decrease in other comprehensive loss		750
Tax impact of decrease in other comprehensive loss		(282)
Impact on total comprehensive loss		—
Decrease in net earnings per share (basic and diluted)		(0.04)

In preparing the 2012 YTD comparative information, the Company has adjusted amounts reported previously in the interim condensed consolidated financial statements as a result of the retrospective application of the amendments to IAS 19, Employee Benefits. A statement of financial position as at January 1, 2012 is included as a result of the Company's retrospective application of the amendments to IAS 19, Employee Benefits. Refer to the March 31, 2013 interim condensed consolidated financial statements for details regarding adjusted amounts.

IFRS 7 Financial Instruments: Disclosures, Amendment regarding Disclosures with respect to Offsetting:

The disclosure requirements have also been amended with respect to offsetting financial assets and financial liabilities to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. Retrospective application is required for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. There was no material impact to the financial statements as a result of adopting this standard.

IFRS 13 Fair Value Measurement:

IFRS 13 establishes a single framework for fair value measurement as required by other IFRS standards and is applicable to both financial and non-financial items that are required or permitted by other standards to be measured at fair value, effective January 1, 2013. Prospective application is required. The adoption of this new pronouncement will impact the Company's disclosures in the annual consolidated financial statements for the 52-week period ended December 29, 2013.

IAS 1 (Revised 2011) Presentation of Financial Statements:

Disclosure of other comprehensive income items between those that are recycled to profit or loss and those not recycled is required with retrospective application, effective for years beginning on or after July 1, 2012. There was no material impact to the financial statements as a result of adopting this standard.

IFRS 10 Consolidated Financial Statements:

The new standard uses control as the single basis of consolidation for all entities with three elements to control: power over an investee; exposure or rights to variable returns; and the ability to affect returns. Retrospective application is required, subject to certain transitional provisions, effective January 1, 2013. There was no material impact to the financial statements as a result of adopting this standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS 11 Joint Arrangements:

The new standard classifies arrangements as either joint operations or joint ventures. All interests in joint ventures should now be accounted for based on the equity method. Transitional provisions vary depending on how an interest is classified under IAS 31, effective January 1, 2013. The adoption of this new pronouncement will impact the Company's disclosures in the annual consolidated financial statements for the 52-week period ended December 29, 2013.

IFRS 12 Disclosure of Interest in Other Entities:

IFRS 12 requires extensive disclosure relating to an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structure entities. The adoption of this new pronouncement will impact the Company's disclosures in the annual consolidated financial statements for the 52-week period ended December 29, 2013.

IAS 28 (as amended 2011) Investments in Associates:

The amended IAS 28 (2011) provides detailed guidance on the application of the equity method to associates, subsidiaries and joint ventures (previously excluded from this standard), effective January 1, 2013. There was no material impact to the financial statements as a result of adopting this standard.

2.5 Standards issued but not yet adopted

IFRS 9 Financial Instruments:

The International Accounting Standards Board is currently developing IFRS 9 which will replace IAS 39, the current standard for accounting for financial instruments. The standard is being completed in three separate phases. The impact of this new standard will be assessed as the phases of the project are completed. The effective date is pending finalization of the impairment and classification and measurement phases of the project.

2.6 Fiscal periods

The Company's 2013 fiscal period is divided in quarters as follows:

	Period from December 31, 2012 to December 29, 2013 ("Fiscal 2013")		Period from January 2, 2012 to December 30, 2012 ("Fiscal 2012")	
	Period End Date	# of Weeks	Period End Date	# of Weeks
Quarter 1	March 31, 2013	13	April 1, 2012	13
Quarter 2	June 30, 2013	13	July 1, 2012	13
Quarter 3	September 29, 2013	13	September 30, 2012	13
Quarter 4	December 29, 2013	13	December 30, 2012	13
Fiscal year	December 29, 2013	52	December 30, 2012	52

3. ACCOUNTS RECEIVABLE

	September 29, 2013	December 30, 2012
Trade	$ 154,935	$ 108,635
Other	5,837	4,825
	$ 160,772	$ 113,460

4. INVENTORIES

	September 29, 2013	December 30, 2012
Raw materials	$ 118,575	$ 59,338
Work in process	72,701	62,753
Finished goods	8,483	2,621
	$ 199,759	$ 124,712

4. INVENTORIES (Continued)

	13-Weeks Ended September 29, 2013	13-Weeks Ended September 30, 2012	**39-Weeks Ended September 29, 2013**	39-Weeks Ended September 30, 2012
Cost of inventories recognized as expense and included in cost of sales	$ 253,460	$ 174,462	$ 681,920	$ 559,384
Write-down of inventory to net realizable value in cost of sales	517	240	1,007	857
Reversals of a previous write-down in inventory	—	—	—	192

5. DEFERRED TAXES AND INCOME TAX EXPENSE

	September 29, 2013	December 30, 2012
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	$ 45,719	$ 41,488
Deferred tax asset to be recovered within 12 months	11,686	13,477
	57,405	54,965
Deferred tax liabilities:		
Deferred tax liability to be reversed after more than 12 months	(114,280)	(119,996)
Deferred tax liability to be reversed within 12 months	(5,816)	(7,881)
	(120,096)	(127,877)
	$ (62,691)	$ (72,912)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The offset amounts by tax jurisdiction presented on the statements of financial position are as follows:

	September 29, 2013	December 30, 2012
As presented on statements of financial position:		
Deferred tax assets	$ 52,580	$ 49,332
Deferred tax liabilities	(115,271)	(122,244)
	$ (62,691)	$ (72,912)

The gross movement on the deferred income tax account is as follows:

	13-Weeks Ended September 29, 2013	13-Weeks Ended September 30, 2012	**39-Weeks Ended September 29, 2013**	39-Weeks Ended September 30, 2012
Beginning of period	$ (64,288)	$ (79,236)	$ (72,912)	$ (82,530)
Exchange differences	553	797	(798)	593
Tax recorded through net earnings	1,152	2,238	10,881	9,416
Tax recorded through other comprehensive income	—	1,879	—	1,645
Benefit of loss carry forward and share issuance costs recognized against income taxes payable	(108)	(163)	(422)	(2,188)
Tax recorded through equity	—	—	560	(1,421)
End of period	$ (62,691)	$ (74,485)	$ (62,691)	$ (74,485)

5. DEFERRED TAXES AND INCOME TAX EXPENSE (Continued)

The movement in deferred income tax assets and liabilities during the periods, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities	Property Plant and Equipment	Goodwill and Intangibles	Other	**Total**
December 30, 2012	$ (451)	$ (122,542)	$ (4,884)	$ (127,877)
Tax reversed through net earnings	178	4,511	3,092	7,781
September 29, 2013	$ (273)	$ (118,031)	$ (1,792)	$ (120,096)

Deferred tax assets	Provisions	Property Plant and Equipment	Pension	Deferred Financing Costs and Interest	Other	**Total**
December 30, 2012	$ 12,352	$ 14,710	$ 3,374	$ 14,529	$ 10,000	$ 54,965
Tax recovered (charged) through net earnings	3,299	(473)	(1,738)	(1,718)	3,730	3,100
Tax recorded through equity	—	—	—	560	—	560
Benefit of loss carry forward and share issuance costs recognized against income taxes payable	—	—	—	(422)	—	(422)
Exchange differences	(188)	(224)	(51)	(228)	(107)	(798)
September 29, 2013	$ 15,463	$ 14,013	$ 1,585	$ 12,721	$ 13,623	$ 57,405

The reconciliation of income tax computed at the U.S. statutory rate, to income tax expense is as follows:

	13-Weeks Ended September 29, 2013	13-Weeks Ended September 30, 2012	**39-Weeks Ended September 29, 2013**	39-Weeks Ended September 30, 2012
Earnings before income tax expense	$ 12,023	$ 3,024	$ 15,664	$ 5,879
Tax calculated using a 35% U.S. tax rate	4,209	1,058	5,483	2,058
Tax effect of:				
Tax recorded through equity	—	88	—	88
Withholding and other taxes	240	227	487	477
Non-deductible expenses (non-taxable income)	(1,080)	13	(1,027)	1,450
Revision of tax estimates	(91)	53	607	(15)
Rate differential on income taxed at other than U.S. statutory rate	(542)	(511)	(1,123)	(2,816)
Foreign exchange impact	1,020	1,344	(1,581)	667
State taxes	222	(763)	(259)	(1,391)
Other	213	(8)	48	—
Income tax expense for the period	$ 4,191	$ 1,501	$ 2,635	$ 518

	13-Weeks Ended September 29, 2013	13-Weeks Ended September 30, 2012	**39-Weeks Ended September 29, 2013**	39-Weeks Ended September 30, 2012
Current income taxes for the period	$ 5,343	3,739	13,516	9,934
Deferred income taxes (recovered) for the period	(1,152)	(2,238)	(10,881)	(9,416)
Income tax expense for the period	$ 4,191	1,501	2,635	518

6. LONG-TERM DEBT

	Final Maturity		Face Value		Unamortized Transaction Costs		**Net Book Value September 29, 2013**		Net Book Value December 30, 2012
Term Credit Facility	April 2017	$	142,000	$	1,883	$	140,117	$	120,950
Revolving Credit Facility ("Revolver")	April 2017		12,000		—		12,000		40,035
			154,000		1,883		152,117		160,985
Less: current portion of long-term debt			12,000		—		12,000		40,035
		$	142,000	$	1,883	$	140,117	$	120,950

On June 21, 2013, concurrent with the acquisition of NABI, the Company entered into a fourth amended and restated credit agreement (the "Credit Facility") which extended its senior secured credit facility to April 24, 2017 while increasing the total amount of the Credit Facility to $257 million, an increase of $45 million. The borrowing limit of the Revolver was increased to $115 million from $90 million to support working capital fluctuations. The Revolver includes a $55.0 million letter of credit sub-facility, of which $26.0 million of outstanding letters of credit were drawn at September 29, 2013. The borrowing limit of the term facility (the "Term Credit Facility") was increased to $142 million from $122 million. In addition, certain financial covenants and definitions were adjusted to reflect the acquisition of NABI. The credit agreement also maintains an accordion feature of $75 million for future investment or acquisition opportunities.

Loans under the Term Credit Facility bear interest at a rate equal to LIBOR or a U.S. base rate for loans denominated in U.S. dollars and a Canadian prime rate or bankers' acceptance rate for loans denominated in Canadian dollars, plus an applicable margin to those rates. The obligations in respect of the Credit Facility are secured by: (a) a perfected lien on, and pledge of, (i) all inter-company notes owing to NFI, and (ii) all of the capital stock of, and inter-company notes owing to all of NFI's existing and direct and indirect subsidiaries, and (b) a perfected lien on, and security interest in, all of the existing and future tangible and intangible properties and assets of NFI and its direct and indirect subsidiaries, with certain exceptions.

7. CONVERTIBLE DEBENTURES

On June 5, 2012, the Company completed a public offering of $65 million aggregate principal amount of Debentures, bearing interest at a rate of 6.25% per annum, payable semi-annually on the last day of June and December commencing on December 31, 2012. The Debentures will mature on June 30, 2017 (the "Maturity Date"). The Debentures are convertible at the holder's option into Shares at a conversion price of $10.00 per Share (the "Conversion Option").

On and after June 30, 2015 and prior to maturity, the Debentures may be redeemed in whole or in part from time to time at the Company's option, at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the Shares on the TSX for the 20 consecutive trading days preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. The Debentures are not redeemable prior to June 30, 2015.

On the Maturity Date, the Company shall repay the holders in cash the principal of the Debentures and all accrued and unpaid interest thereon, up to but excluding the Maturity Date. However, the Company may, at its option, subject to receiving all applicable regulatory approvals and giving the required notice, elect to satisfy its obligation to repay on the Maturity Date the principal amount, in whole or in part, by issuing and delivering to holders that number of fully paid and non-assessable freely tradeable Shares calculated by dividing the principal amount of Debentures by 95% of the current market price of the Shares on the fifth trading day preceding the Maturity Date.

On the date of issuance, the gross proceeds in the amount of $65 million were allocated firstly to the liability component of the Debentures based on the fair value of a similar instrument without a conversion option and the residual value being allocated to the Conversion Option. The fair value of the Debentures was estimated by calculating the discounted cash flows of the Debentures using prevailing market rates for similar non-convertible debt instruments. The fair value of the Debentures is classified as a liability, while the residual value of the Debentures, net of taxes, is classified as a separate component of shareholders' equity. The liability component will accrete to its final redemption amount of $65 million at Maturity Date at an effective interest rate over the five-year term of the Debentures.

7. CONVERTIBLE DEBENTURES (Continued)

	Debenture liability component	Equity component of Debenture	**Net Book Value September 29, 2013**	Net Book Value December 30, 2012
Proceeds from issue of Debentures	$ 59,412	$ 5,588	$ 65,000	$ 65,000
Debenture issuance costs	(3,463)	(326)	(3,789)	(3,789)
Net proceeds	55,949	5,262	61,211	61,211
Accretion in carrying value of debenture liability	1,968	—	1,968	811
Deferred taxes	—	(1,421)	(1,421)	(1,421)
Net book value	$ 57,917	$ 3,841	$ 61,758	$ 60,601

8. SHARE CAPITAL

Authorized			
Unlimited	Common Shares		
Issued		**September 29, 2013**	December 30, 2012
55,466,904	Common Shares (December 30, 2012: 44,379,070)	$ 589,208	$ 476,918

The dividends declared in the third quarter of 2013 and the third quarter of 2012 were $7,832 ($0.14 per Share) and $7,549 ($0.17 per Share) respectively. Dividends of $2,586 ($0.05 per Share) were proposed or declared after September 29, 2013 but prior to the Statements being authorized for issue. The Statements do not reflect this dividend payable.

9. EARNINGS PER SHARE

	13-Weeks Ended September 29, 2013	13-Weeks Ended September 30, 2012	**39-Weeks Ended September 29, 2013**	39-Weeks Ended September 30, 2012
Net earnings attributable to equity holders	$ 7,832	$ 1,523	$ 13,029	$ 5,361
Add: Interest expense on Debentures, net of tax	1,030	658	3,069	959
Net earnings used to determine diluted earnings per Share	8,862	2,181	16,098	6,320
Weighted average number of Shares in issue	55,466,904	44,379,070	50,749,954	44,379,070
Add: assumed conversion of stock options	490,356	—	490,356	—
Add: assumed conversion of Debentures	6,500,000	8,828,523	6,500,000	8,828,523
Weighted average number of Shares for diluted earnings per Share	62,457,260	53,207,593	57,740,310	53,207,593
Net earnings per Share (basic)	0.14	0.03	0.26	0.12
Net earnings per Share (diluted)	$ 0.14	$ 0.03	$ 0.26	$ 0.12

a) Basic earnings per Share is calculated by dividing the net earnings attributable to equity holders of the Company by the weighted average number of Shares outstanding during the period excluding Shares purchased by the Company and held as treasury shares. During the period the Company did not hold any Shares as treasury shares.

b) Diluted earnings per Share is calculated using the same method as basic earnings per Share except that the average number of common shares outstanding includes the potential dilutive effect of outstanding stock options granted by the Company as determined by the treasury stock method. Dilution could occur either through exercise of the Conversion Option or the Debentures being repaid with Shares at Maturity Date at 95% of market price. Currently, the potential Shares of the Debentures are considered anti-dilutive and are disregarded in calculating diluted earnings per Share.

10. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	**13-Weeks Ended September 29, 2013**	13-Weeks Ended September 30, 2012	**39-Weeks Ended September 29, 2013**	39-Weeks Ended September 30, 2012
Accounts receivable	$ 15,183	$ 16,276	$ 5,790	$ 20,471
Income taxes recoverable	(195)	—	(1,163)	—
Inventories	(24,962)	(12,643)	(514)	(12,915)
Prepaid expenses and deposits	(384)	(363)	(4,217)	977
Accounts payable and accrued liabilities	(12,411)	(7,497)	3,798	(15,008)
Income taxes payable	—	3,574	(6,756)	(630)
Deferred revenue	19,768	4,894	12,567	4,588
Provision for warranty costs	883	(3,553)	970	(10,064)
Other	—	(2,601)	—	582
	$ (2,118)	$ (1,913)	$ 10,475	$ (11,999)

11. EMPLOYEE FUTURE BENEFITS

Defined benefit plan

The Company's subsidiary, NFI ULC, has a defined benefit plan which only covers unionized employees at the Winnipeg facility. The cumulative net actuarial losses on defined benefit pension are $6,490 (net of income tax recovery of $3,925) which is recorded in accumulated other comprehensive loss.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Financial Instruments

The Company has made the following classifications:

Cash	Loans and receivables
Accounts receivable	Loans and receivables
Deposits	Loans and receivables
Accounts payables and accrued liabilities	Other Liabilities
Convertible debentures	Other Liabilities
Other long-term liabilities	Other Liabilities
Long-term debt	Other Liabilities
Derivative financial instruments and embedded derivatives	Fair value through profit or loss

b) Fair value measurement of financial instruments

The Company categorizes its fair value measurements of financial instruments recorded at fair value according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company’s valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

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

Level 2 – fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

for identical or similar assets and liabilities in inactive markets, inputs that are observable that are not prices (such as interest rates and credit risks) and inputs that are derived from or corroborated by observable market data.

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

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

Financial instruments whose carrying value approximates fair value – The carrying value of accounts receivable, deposits and accounts payable and accrued liabilities approximates their fair value due to the short-term nature of these instruments. The carrying value of the Term Credit Facility approximates fair value primarily because the interest rate is variable. The carrying value of the other long-term liabilities was calculated using discounted future payments which approximates fair value.

The fair value is principally applied to financial assets and liabilities such as derivative instruments consisting of interest rate swaps and foreign exchange forward contracts. The following table provides a summary of financial assets and liabilities that are measured at fair value:

	September 29, 2013		
	Fair value level	Carrying amount	Fair value
Financial assets			
Foreign exchange forward contracts	Level 2	$ 111	$ 111
Financial liabilities			
Interest rate swap	Level 2	2,934	2,934

Convertible debentures - The fair values for disclosure purposes have been estimated using public market data inputs such as the market price of the convertible debentures. Estimated fair value amounts for the financial instruments that relate to the Company's debt that bear interest at fixed interest rates are as follows:

	Net Book Value September 29, 2013	Fair Value September 29, 2013
Convertible debentures (including equity conversion option)	$ 61,758	$ 74,210

(c) Risk Management

The Company uses derivative financial instruments including interest rate swaps, foreign exchange options and forward foreign exchange contracts. These instruments are financial contracts whose value depends on interest rates and foreign currency prices. The use of derivatives allows the transfer, modification and reduction of current and expected risks, including interest rate, foreign exchange and other market risks. The Company uses derivative financial instruments to manage interest rate and foreign exchange risks in accordance with its risk management policies. Certain derivative instruments, while providing effective economic hedges, are not designated as hedges for accounting purposes. Changes in the fair value of any derivatives that are not designated as hedges for accounting purposes are recognized within "finance costs" or "unrealized foreign exchange loss on non-current monetary items" in the interim condensed consolidated statements of net earnings and comprehensive income (loss) consistent with the underlying nature and purpose of the derivative instruments.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

In connection with the Credit Facility, the Company has rolled over the existing interest rate swap designed to hedge floating rate exposure for the term of the Credit Facility on $142,000 of drawn term loan. The new interest rate swap fixes the interest rate at 1.46% plus the applicable interest margin until April 2017. In comparison, the interest rate swap in place prior to the closing of the Credit Facility fixed the interest rate at 1.90% plus the applicable interest margin until April 2014. The fair value of the interest rate swap liability at September 29, 2013 is $2,934 (December 30, 2012: $1,976) and the change in fair value has been recorded as finance costs for the reported period. The related liability has been recorded on the interim condensed consolidated statements of financial position as a derivative financial instruments liability.

(d) Liquidity Management

The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At September 29, 2013, the Company had a cash balance of $13,519 (December 30, 2012: $11,182) and the $115,000 Revolver. As at September 29, 2013, there was $12,000 of direct borrowings (December 30, 2012: $40,035) and $25,995 of outstanding letters of credit (December 30, 2012: $14,207) under the Revolver.

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

(e) Credit risk

The carrying amount of accounts receivable is reduced through the use of an allowance account and the amount of the loss is recognized in the interim condensed consolidated statements of net earnings and comprehensive income (loss) within "sales, general and administration costs and other operating expenses". When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against "sales, general and administration costs and other operating expenses" in the interim condensed consolidated statements of net earnings and comprehensive income (loss).

The following table details the aging of the Company's receivables and related allowance for doubtful accounts as follows:

	September 29, 2013	December 30, 2012
Current, including holdbacks	$ 140,959	$ 104,759
Past due amounts but not impaired		
1 – 60 days	15,374	6,251
Greater than 60 days	4,577	2,525
Less: Allowance for doubtful accounts	(138)	(75)
Total accounts receivables, net	$ 160,772	$ 113,460

As at September 29, 2013, there was no amount that would be past due or impaired whose terms have been renegotiated.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

There are certain financial covenants under the Credit Facility that must be maintained. These financial covenants include an interest coverage ratio and total leverage ratio. As at September 29, 2013, the Company was in compliance with the financial covenants in the Credit Facility. The results of the financial covenants tests as of such date are as follows:

	September 29, 2013	December 30, 2012
Total Leverage Ratio (must be less than 3.25)	1.78	2.52
Interest Coverage Ratio (must be greater than 3.00)	7.83	4.23

Compliance with financial covenants is reported quarterly to the board of directors. Other than the requirements imposed by borrowing agreements, the Company is not subject to any externally imposed capital requirements.

13. SEGMENT INFORMATION

The Company has two reportable segments: Bus Operations and Aftermarket Operations, which are the Company's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Company's President and CEO reviews internal management reports on a monthly basis.

The Bus Operations segment includes NFI and NABI and derives its revenue from the manufacture of heavy-duty transit buses for public transportation. The Aftermarket Operations segment includes NFI, NABI and Orion (which is now fully integrated into NFI's operations) and derives its revenue from the provision of service parts and support related to heavy-duty transit buses. These operating segments are consistent with the management of the business, which is based on the products and services offered.

There is no inter-segment revenue. Unallocated items in the consolidated earnings before income taxes primarily include foreign exchange gains or losses, losses or gains on disposition of property, plant and equipment, depreciation of property, plant and equipment, amortization of intangible assets, interest expense and income, fair value adjustment to embedded derivatives, accretion in carrying value of long-term debt and gains and losses on the Company's interest rate swap. Corporate overhead costs are allocated fully to the Bus Operations segment. The Bus Operations segment has recorded vendor rebates of $1,341 (2012 Q3: $1,321), which have been recognized into earnings during 2013 YTD, but for which the full requirements for entitlement to these rebates have not yet been met.

The unallocated total assets of the Company primarily include cash, intangible assets, embedded derivative instruments, derivative financial instruments and deferred income tax assets. Corporate assets that are shared by both operating segments are allocated fully to the Bus Operations segment.

Segment information about profits and assets is as follows:

	13-Weeks Ended September 29, 2013			
	Bus Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 250,625	$ 58,331	$ —	$ 308,956
Operating costs and expenses	236,231	50,630	—	286,861
Earnings (loss) before income tax expense	14,394	7,701	(10,072)	12,023
Total assets	504,144	200,228	384,085	1,088,457
Acquisition of property, plant and equipment	3,362	222	—	3,584
Acquisition of goodwill and intangible assets	999	480	—	1,479
Goodwill	150,337	62,678	—	213,015

13. SEGMENT INFORMATION (Continued)

	13-Weeks Ended September 30, 2012			
	Bus Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 179,336	$ 29,085	$ —	$ 208,421
Operating costs and expenses	170,712	24,616	—	195,328
Earnings (loss) before income tax expense	8,624	4,469	(10,069)	3,024
Total assets	372,614	99,764	381,327	853,705
Acquisition of property, plant and equipment	3,119	41	—	3,160
Acquisition of intangible assets	–	29	—	29
Goodwill	148,483	53,685	—	202,168

	39-Weeks Ended September 29, 2013			
	Bus Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 677,986	$ 147,017	$ —	$ 825,003
Operating costs and expenses	646,630	130,666	—	777,296
Earnings (loss) before income tax expense	31,356	16,351	(32,043)	15,664
Total assets	504,144	200,228	384,085	1,088,457
Acquisition of property, plant and equipment	5,335	1,067	—	6,402
Acquisition of goodwill and intangible assets	8,919	50,369	—	59,288
Goodwill	150,337	62,678	—	213,015

	39-Weeks Ended September 30, 2012			
	Bus Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 572,938	$ 90,107	$ —	$ 663,045
Operating costs and expenses	546,929	74,818	—	621,747
Earnings (loss) before income tax expense	26,009	15,289	(35,419)	5,879
Total assets	372,614	99,764	381,327	853,705
Acquisition of property, plant and equipment	8,812	65	—	8,887
Acquisition of intangible assets	–	163	—	163
Goodwill	148,483	53,685	—	202,168

14. COMMITMENTS AND CONTINGENCIES

(a) Through the normal course of operations, the Company has indemnified the surety companies providing surety bonds required under various contracts with customers. In the event that the Company fails to perform under a contract and the surety companies incur a cost on a surety bond, the Company is obligated to repay the costs incurred in relation to the claim up to the value of the bond. The Company's guarantee under each bond issued by the surety companies expires on completion of obligations under the customer contract to which the bond relates. The estimated maturity dates of the surety bonds outstanding at September 29, 2013 range from October 2013 to October 2016.

At September 29, 2013, outstanding surety bonds guaranteed by the Company totaled $150,469 (December 30, 2012: $52,030). The Company has not recorded any liability under these guarantees, as management believes that no material events of default exist under any contracts with customers.

(b) The Company has a letter of credit sub-facility of $55,000 as part of the $115,000 Revolver. As at September 29, 2013, letters of credit totaling $25,995 (December 30, 2012: $14,207) remain outstanding under the letter of credit facility.

As at September 29, 2013, management believes that the Company is in compliance in all material respects with all applicable contractual obligations and the Company has not provided for any costs associated with these letters of credit.

15. PROVISION FOR WARRANTY COSTS

Extended warranties for major subsystems such as engines, transmissions, axles and air conditioning are normally purchased for the customer from the manufacturer. The Company will also provide other extended warranties, including those covering brake systems, lower level components, fleet defect provisions and engine-related components, covering a warranty period of approximately one to five years, depending on the contract.

Under the fleet defect provisions included in some bus purchase contracts, the Company 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 a stated period following delivery of the bus (typically 12 months following delivery of the bus). The Company also frequently provides a parts 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. The Company also builds an estimate of these costs into each of its contracts based on the Company's historical experience and technical expectations.

The movement in the provision for warranty costs during the period is as follows:

		Total
December 30, 2012	$	20,106
Additions		20,384
Assumed on June 21, 2013 relating to NABI acquisition		15,410
Amounts used/realized		(19,164)
Unwinding of discount and effect of changes in the discount rate		(7)
Exchange differences		(243)
September 29, 2013	$	36,486

16. SHARE-BASED COMPENSATION

The Board adopted a Share Option Plan (the "Option Plan") for NFI on March 21, 2013, under which employees of NFI and certain of its affiliates ("participants") may receive grants of share options. Directors who are not employed with NFI are not eligible to participate in the Option Plan. A maximum of 3,600,000 Shares are available for issuance under the Option Plan. Also on March 21, 2013, the Board approved grants of an aggregate of 490,356 share options (the "Options") to eleven executives, effective March 26, 2013. However, in accordance with the policies of the TSX, NFI was required to submit the Option Plan for approval by NFI's shareholders. The Option Plan and the ratification of the grant of the Options were approved by NFI's shareholders at the annual general meeting on May 9, 2013 (the "grant date"). The Options will expire on March 26, 2021. All of the Options have been granted to insiders. The Options will become vested as to one-quarter on the first anniversary of the grant date and an additional one-quarter on the second, third and fourth anniversary of the grant date. Each Option must be exercised no later than eight years after the grant date, at which time each Option will expire. No Options may be granted under the Option Plan after March 21, 2023.

The grant date fair value was measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The fair values were calculated as of May 9, 2013. The inputs used in the measurement of the fair values of the share-based payment plans granted this year are the following:

- Fair value at grant date C$1.55
- Share price C$10.20
- Exercise price C$10.20
- Expected volatility (weighted average volatility) 31.6%
- Option life (expected weighted average life) 5.5 years
- Expected dividends 5.74%
- Risk-free interest rate (based on government bonds) 1.23% to 1.61%

All 490,356 originally granted Options are still outstanding at September 29, 2013. None of these Options have been vested or forfeited.

17. OTHER LONG-TERM LIABILITIES

Prior to the Acquisition Date, NABI entered into a settlement agreement with a customer which provided for an aggregate payment obligation of $9.25 million, of which $6.25 million remains to be paid by NABI. In addition, NABI is required to contribute an additional aggregate amount of at least $5.0 million over the next five years in the form of parts and services rebates (or cash in lieu thereof). NABI's obligations under the settlement agreement remain in place following the acquisition. The following is a schedule of future minimum payments (cash and parts and service rebates). The fair value of the settlement obligation is recorded based on discounted future payments.

		Total
Due October 1, 2013	$	1,000
2014		3,000
2015		3,000
2016		2,250
2017		1,000
2018		1,000
		11,250
Less: Future value discount		1,038
	$	10,212