November 5, 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS AND 39-WEEKS ENDED SEPTEMBER 28, 2014

Information in this Management's Discussion and Analysis ("MD&A") relating to 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 ("2014 Q3") and the 39-week period ("2014 YTD") ended September 28, 2014. 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 at September 28, 2014, 55,495,104 Shares and approximately $64.7 million aggregate principal amount of Debentures were outstanding. The Debentures are convertible at the holder's option into Shares at a conversion price of $10.00 per Share. 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 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 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 limited demand for such new products from customers, the ability to successfully complete the product rationalization of the NABI bus platform to the Xcelsior®, on budget and on schedule, 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, income taxes and unrealized foreign exchange losses or gains on non-current monetary items. References to "EBITDA" are to earnings before interest, income taxes, depreciation and amortization, and unrealized foreign exchange losses or gains on non-current monetary items. 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, product rationalization costs, impairment loss on equipment and intangible assets, realized 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, product rationalization costs, 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 headings "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 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 now all-electric buses. All buses are supported by an industry-leading comprehensive warranty and support program, and service network. New Flyer and its subsidiary NABI Parts, LLC ("NABI Parts") 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. The New Flyer group of companies employ over 3,300 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*

The U.S. federal transit program is funded from general revenues of the U.S. government and from revenues credited to the Mass Transit Account of the Highway Trust Fund. With the appropriation funding Bill titled MAP-21 expiring on September 30, 2014, President Obama released earlier in 2014 a $90.9 billion budget for Department of Transportation in Fiscal Year 2015 as part of a $302 billion, four year surface transportation reauthorization ("The Grow America Act"). The proposal included significant increases in funding for the state-of-good repair and bus and bus facilities accounts, which have historically been a source of funding for bus replacement and bus maintenance activities for U.S. transit agencies. There was also a recommendation for a significant discretionary program aimed at establishing bus rapid transit (BRT) service in areas with rapidly growing populations.

In June 2014, the Grow America Act was introduced to Congress and was referred to a number of committees and subcommittees. Without sufficient time to debate and negotiate such a significant proposal, MAP-21 was extended, making approximately $10.8 billion available for the Highway Account and Mass Transit Account of the Highway Trust Fund and effectively providing sufficient funds to support highway and transit expenditures at current levels through May 2015. The transit industry currently anticipates the potential for a number of extensions before a substantial multi-year funding bill is approved in Washington.

Management remains encouraged with general economic health improvement of the U.S. states. The U.S. Bureau of Labor Statistics (Employment Situation Summary on October 7, 2014) reports U.S. unemployment reduced further in the quarter, ending with a rate of 5.9% in September 2014 as compared to a 7.2% unemployment rate at September 2013. Preliminary data from the Rockefeller Institute (Preliminary Report on September 17, 2014) reports state tax collections declined slightly in the second quarter of 2014 by just 1.7% over the prior year.

*Recent Ridership Trends*

The latest data from the American Public Transportation Association (“APTA”) indicates overall stable ridership during the second quarter of 2014. The report indicated an increase of 1.1% in all modes of U.S. transit ridership during the second quarter of 2014 compared with the previous year; with a marginal decrease in bus ridership of 0.7%. The same report indicates Canadian ridership increased by 1.5% in all modes of transit ridership during the second quarter of 2014 as compared to the previous year; however, specific data on bus ridership is not available.

*Demand for Heavy-Duty Transit Buses*

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 “Active EUs” consists of: bids received with proposal in process and proposals submitted and awaiting award. The bid universe consists of the pipeline of Active EUs and solicitations that management expects to be released by U.S. and Canadian transit agencies within a five-year horizon. Effective the first quarter of 2014, the bid universe now includes MiDi® opportunities.

| Period | Bids in Process (EUs) | Bids Submitted (EUs) | Active EUs | Forecasted Future Industry Procurement over 5 Years (EUs)[(1)] | Total Bid Universe (EUs) |
|---|---|---|---|---|---|
| 2013 Q3 | 2,121 | 5,996 | 8,117 | 11,824 | 19,941 |
| 2013 Q4 | 909 | 5,329 | 6,238 | 12,354 | 18,592 |
| 2014 Q1 | 3,626 | 2,045 | 5,671 | 15,567 | 21,328 |
| 2014 Q2 | 2,772 | 1,926 | 4,698 | 15,030 | 19,728 |
| **2014 Q3** | **2,864** | **3,419** | **6,283** | **15,490** | **21,773** |

(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.

The total number of Active EUs at the end of 2014 Q3 increased by 34% compared to the end of the 13-week period ended June 29, 2014 (“2014 Q2”). This increase is consistent with management's expectations of forecasted bid activity.

Management anticipates that the amount of bus procurement activity by public transit agencies throughout the United States and Canada should remain robust based on expected customer fleet replacement plans, and active procurements.

*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, Orion and other manufacturers. To assess the aftermarket parts market outlook, the Company regularly monitors the change in aftermarket parts operating budgets of some of the largest transit authorities. Management’s latest review indicates that the aftermarket parts industry is expected to continue to improve.

**2014 Third Quarter in Review**

Bus order activity during 2014 Q3

New orders (firm and options) for 2014 Q3 totaled 109 EUs. The new firm and option orders awarded to New Flyer for the last twelve months ending September 28, 2014 (“2014 Q3 LTM”) were 1,475 EUs compared to 6,003 EUs during the 52-week period ended September 29, 2013 (“2013 Q3 LTM”). Also, New Flyer was successful at converting 359 EUs of options during 2014 Q3, which contributed to the 1,209 EUs of options converted in 2014 Q3 LTM as compared to 568 EUs during 2013 Q3 LTM.

| | New Orders in Quarter (Firm and Option EUs) | LTM New Orders (Firm and Option EUs) | Option EU Conversions in Quarter | LTM Option EU Conversions |
|---|---|---|---|---|
| 2013 Q3 | 2,431 | 6,003 | 116 | 568 |
| 2013 Q4 | 331 | 5,279 | 223 | 601 |
| 2014 Q1 | 559 | 3,834 | 506 | 883 |
| 2014 Q2 | 476 | 3,797 | 121 | 966 |
| **2014 Q3** | **109** | **1,475** | **359** | **1,209** |

In 2014 Q3, options containing 621 EUs expired. Year-to-date, approximately 47% of options scheduled to expire have been successfully converted to active orders, compared to just 41% during the first three quarters of 2013.

At the end of 2014 Q3, new firm and option orders of 472 EUs were pending from customers where approval of the award had been made by the customer's board, council, or commission, as applicable, but purchase documentation had not yet been received by the Company. These firm and option orders are not yet included in the backlog.

At the end of 2014 Q3, New Flyer's total backlog was 6,239 EUs (valued at $3.07 billion) compared to 7,372 EUs (valued at $3.54 billion) at the end of 2014 Q2. The Company’s backlog includes MiDi®.

In 2013, the Federal Transit Administration ("FTA") issued a Dear Colleague or guidance letter to the transportation industry providing guidance on joint procurements and the assignment of options to purchase buses (referred to as "piggybacking"). The FTA encourages its grantees (such as transit agencies) to issue joint procurements, but now limits the amount of goods and services an agency can specify under a procurement to that amount required to meet its expected needs. The FTA has reminded grantees that they are prohibited from improperly expanding a procurement to include excess goods simply for the purpose of assigning options to other agencies at a later date. Since the FTA issued its guidance, there have been a greater number of procurements issued by agencies, but with a lower number of total options specified under each procurement. Management believes the total number of EUs to be ordered will likely not change as a result of the FTA's guidance letter, however, the overall size of the industry's option backlog will likely decrease. Management does not anticipate any further changes in the near term by the FTA in its Common Grant Rules.

New Flyer's backlog includes orders and options for clean propulsion vehicles (consisting of electric-hybrid, electric-trolley, compressed natural gas, liquid natural gas and all-electric) representing approximately 69% of the total backlog.

The Company delivered 621 EUs in 2014 Q3, which is an increase of 44 EUs over deliveries in the 13-week period ended September 29, 2013 ("2013 Q3"). The total bus inventory for the Company at September 28, 2014 was 399 EUs. The increase is related to delayed customer inspection and acceptance in respect of a few contracts which management expects to substantially recover by year-end. The Company line entered 654 EUs (which includes MiDi®) in 2014 Q3.

New Flyer's 2014 Q3 LTM Book-to-Bill ratio (defined as new firm and option orders divided by deliveries) was 62% as compared to 309% during 2013 Q3 LTM, but is expected to recover in the next few quarters based on pending awards and current active competitions. The Company's LTM Book-to-Bill ratio has exceeded 100% for six of the last seven quarters.

On October 10, 2014 the Company unveiled the addition of the XE40, a zero-emission battery-electric propulsion system to its commercially available lineup of Xcelsior® transit bus models at the APTA Expo tradeshow in Houston, Texas. By replacing conventional mechanical power train systems, such as engines, transmissions, fuel systems and complete exhaust after-treatment, with a high efficiency electric drive, the XE40 requires less maintenance throughout its life. The lithium ion battery packs have the ability to receive a partial recharge using a regenerative braking system, which is ideally suited for the typical start-and-stop duty cycle of a transit bus. Range is dependent on the unique operations and route structure of each customer with the capability of scalable battery capacities between 100 and 300 kW. To date, New Flyer has built six XE40's for North American customers, and expects five of them to enter service in the coming weeks. The sixth vehicle has commenced its FTA new bus model testing at the Altoona Bus Research and Testing Center in Altoona, PA.

The Company also announced in October 2014 that it is developing the first ever North American designed and built zero-emission 60-foot battery-electric/fuel cell bus. This propulsion system is being integrated into New Flyer's Buy America compliant and proven Xcelsior® X60 heavy-duty transit bus platform that includes a combination of batteries, a fuel cell, and hydrogen storage. The electric drive bus will allow the fuel cell to operate at a relative steady-state, while the batteries will be able to both capture breaking energy and provide power for acceleration.

In order to be eligible to participate in FTA-funded procurements in the United States, all transit vehicle manufacturers must comply with the US Department of Transportation's Disadvantaged Business Enterprise ("DBE") regulations and must submit a DBE plan regarding their compliance with the DBE regulations to the FTA each year for approval. On October 31, 2014 New Flyer received a letter from the FTA advising that New Flyer's 2015 DBE program (the "DBE plan") had not been approved because certain administrative matters had not been completed by New Flyer. Management anticipates completing the outstanding administrative items and reporting thereon and receiving the FTA's approval on or around November 18, 2014. Until such time as the FTA approves the DBE plan, the Company is not permitted to submit bids on FTA-funded procurements. The FTA's disapproval is not retroactive and does not prevent the Company from performing contracts awarded prior to October 31, 2014. Prior to November 18, 2014, there are no FTA-funded procurements on which the Company is bidding. Management expects that this matter will be rectified within the next two weeks and therefore does not anticipate that it will cause any material adverse impact on New Flyer's business or operations.

Aftermarket order activity during 2014 Q3

Gross orders received by New Flyer's aftermarket parts business during 2014 Q3 increased 50% compared to 2013 Q3. Parts shipments in 2014 Q3 also increased 41% over 2013 Q3.

Quarter-over-quarter 2014 Q3 gross parts orders were up 18% over 2014 Q2, while actual part shipments grew by 3% over 2014 Q2. This revenue growth in 2014 Q3 was driven largely by a mix change in the Chicago Transit Authority ("CTA") midlife program. These orders however, arose under the New Flyer prime contract portion of the midlife program where margins are slightly lower than under the earlier portion of the program where New Flyer was not the prime contractor.

**2014 Third Quarter Financial Results**

The Company generated consolidated revenue of $360.8 million for 2014 Q3, an increase of 17.7% compared to consolidated revenue for 2013 Q3 of $306.5 million, and consolidated revenue for 2014 YTD of $1.0 billion, an increase of 26.0% from consolidated revenue for the 39-week period ended September 29, 2013 ("2013 YTD") of $818.2 million. The 2014 Q3 revenue growth is primarily a result of increased production and aftermarket volumes, whereas 2014 YTD's growth was also a result of business acquisitions in Fiscal 2013 and the CTA midlife overhaul program.

Revenue from bus manufacturing operations for 2014 Q3 was $278.7 million, an increase of 12.3% from $248.2 million in 2013 Q3. The increase in 2014 Q3 revenue primarily resulted from a 7.6% increase in total bus deliveries of 621 EUs in 2014 Q3 compared to 2013 Q3 deliveries of 577 EUs and a 4.3% increase in average selling price per EU in 2014 Q3 of $448.8 thousand compared to $430.1 thousand in 2013 Q3. Similarly, bus revenue for 2014 YTD of $795.4 million increased 18.5% from $671.2 million for 2013 YTD. Bus deliveries of 1,757 EUs in 2014 YTD increased 12.9% compared to 1,556 EUs in 2013 YTD and the average selling price per EU in 2014 YTD of $452.7 thousand increased 4.9% from $431.4 thousand in 2013 YTD. The increase in average selling price is the result of changes in the product sales mix, which included fewer articulated buses. The average selling price can be volatile when comparing fiscal quarters as a result of sales mix. The increased deliveries during 2014 YTD were primarily as a result of including NABI Bus deliveries effective June 21, 2013. However, the bus inventory at the end of 2014 Q3 increased by 33 EUs compared to at the end of 2014 Q2. The increased EUs were not delivered as a result of delayed customer inspection and acceptance of a few low margin contracts. Management expects to substantially recover deliveries on these contracts by year-end.

Revenue from aftermarket operations in 2014 Q3 was $82.0 million, an increase of 40.7% compared to $58.3 million in 2013 Q3 resulting from an improved aftermarket parts market. Revenue from aftermarket operations for 2014 YTD was $235.7 million, an increase of 60.3% compared to $147.0 million in 2013 YTD. The increase in aftermarket operations revenue during 2014 YTD is primarily a result of increased volumes as a result of incremental revenue from the CTA midlife overhaul program, the Orion parts business and the NABI Parts business.

Consolidated Adjusted EBITDA for 2014 Q3 totaled $25.7 million (7.1% of revenue) compared to $24.4 million (8.0% of revenue) in 2013 Q3, which represents an increase of 5.2%. In comparing the respective periods, this increase in consolidated Adjusted EBITDA is primarily due to the incremental aftermarket operations volume and increased bus deliveries. 2014 YTD consolidated Adjusted EBITDA of $72.3 million (7.0% of revenue) increased by 25.0% compared to 2013 YTD consolidated Adjusted EBITDA of $57.9 million (7.1% of revenue).

2014 Q3 bus manufacturing operations Adjusted EBITDA of $12.6 million (4.5% of revenue) decreased 20.9% compared with 2013 Q3 bus manufacturing operations Adjusted EBITDA of $15.9 million (6.4% of revenue). The decrease in Adjusted EBITDA was expected as management had previously provided guidance about lower than average margins and a temporary spike in bus inventory levels at the end of 2014 Q3. 2014 Q3 Adjusted EBITDA also decreased as a result of an accounting provision made for the expected payment of $2.6 million for the 2012 performance share units, the performance targets in respect of which are now expected to be achieved. Bus manufacturing operations Adjusted EBITDA of $34.2 million (4.3% of revenue) for 2014 YTD decreased 5.9% compared to $36.3 million (5.4% of revenue) for 2013 YTD. Profit margins have decreased when comparing the two periods as management had anticipated and previously provided guidance regarding lower bus margins in 2014 YTD. Management has continued its efforts to recover margins during 2014 YTD through cost reductions, improved labour efficiency and change orders with customers. Profit margins can vary significantly between orders due to factors such as pricing, order size, product type and components specified by the customer. 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.

2014 Q3 aftermarket operations Adjusted EBITDA of $13.1 million (16.0% of revenue) increased 54.0% compared to $8.5 million (14.6% of revenue) in 2013 Q3. Profit margins have improved primarily as a result of improved aftermarket parts market fundamentals and the benefits to the product mix that has resulted from a far broader portfolio of services and parts offerings to customers. The aftermarket operations Adjusted EBITDA for 2014 Q3 was normalized for $0.1 million of non-recurring costs relating to business acquisition as compared to $0.4 million during 2013 Q3.

Aftermarket operations Adjusted EBITDA for 2014 YTD of $38.1 million (16.2% of revenue) represents an increase of 77.2% over 2013 YTD aftermarket operations Adjusted EBITDA of $21.5 million (14.6% of revenue). Additional Adjusted EBITDA was generated by the CTA midlife overhaul program and the acquisition of NABI Parts and the Orion parts businesses when comparing the two periods.

The Company reported net earnings of $10.2 million in 2014 Q3, an increase of 30.8% compared to net earnings of $7.8 million in 2013 Q3. The Company's net earnings per Share in 2014 Q3 were $0.18, an increase from net earnings per Share of $0.14 generated during 2013 Q3. The increased net earnings in 2014 Q3 is primarily as a result of the decrease in income tax expense offset by an increase in the unrealized foreign exchange loss. The increase in the 2014 Q3 deferred income tax expense recovered resulted from the foreign currency translation of the deferred income tax balances.

Similarly, 2014 YTD net earnings of $19.3 million increased compared to 2013 YTD net earnings of $13.0 million. Net earnings per Share in 2014 YTD were $0.35 compared to $0.26 generated during 2013 YTD. The increased net earnings were primarily as a result of improved Earnings from Operations offset by increased income taxes.

The Company generated Free Cash Flow of C$17.9 million during 2014 Q3 as compared to C$13.1 million in 2013 Q3 primarily as a result of improved Adjusted EBITDA, decreased cash capital expenditures and current income taxes. The Company declared dividends in 2014 Q3 of C$8.1 million similar to C$8.1 million in 2013 Q3.

The Company generated Free Cash Flow of C$44.4 million during 2014 YTD as compared to C$29.4 million in 2013 YTD. The Company declared dividends in 2014 YTD of C$24.3 million as compared to C$22.6 million in 2013 YTD. The amount of dividends declared increased in 2014 YTD primarily as a result of issuing 11.1 million Shares in Fiscal 2013 to Marcopolo. The Free Cash Flow payout ratio of 54.7% in 2014 YTD improved as compared to 76.9% during 2013 YTD. Management believes that sufficient Free Cash Flow will be generated to maintain the current annual dividend rate of C$0.585 per Share, which was set by the Board effective August 2012. The Company has paid dividends to shareholders for 108 consecutive months since the Company's initial public offering in August 2005.

During 2014 Q3, the increased investment in non-cash working capital items, such as increased bus inventories resulted in a $15.0 million draw on the Company's revolving credit facility ("Revolver").

The September 28, 2014 liquidity position of $58.8 million is comprised of available cash of $8.7 million and $50.1 million available under the Revolver as compared to a liquidity position of $69.2 million at December 29, 2013. As at September 28, 2014, there were $45.0 million of direct borrowings and $19.9 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 financial obligations as they come due, as well as provide funds for its financing requirements, capital expenditures, dividend payments and other operational needs for the foreseeable future.

**Business Outlook**

The Company has decided to phase out production of NABI Bus LFW and BRT models from NABI's Anniston, AL facility and transition to the Xcelsior®. This is expected to occur in the second half of 2015 and is expected to allow for improvement in competiveness in the U.S. and Canadian markets by leveraging its combined bus volume, production, and purchasing for greater efficiencies. Management expects to streamline design, sourcing, standardization, and overhead for better product control (such as eliminating redundancy and future costs in designing products, including refreshing bus and propulsion platforms, testing and engineering). It is also anticipated to enable product enhancements and optimize aftermarket support to better serve customer needs. The plan involves a transition to common information technology infrastructure.

During this transition period, management expects to invest approximately $20 million in direct operating costs and capital expenditures to complete the transition, utilizing operating cash flow and current credit facilities. Management anticipates these direct operating and capital expenditures will be paid back through captured cost reductions and synergies within approximately two to three years. As at September 28, 2014, the Company had spent $0.3 million on related costs which has resulted in annualized cost reductions of $1.7 million.

New Flyer expects to deliver orders as previously committed and to provide support for NABI Bus customers of the LFW and BRT products for as long as those buses are in service. Management is not aware of any major customer concerns relating to the transition to Xcelsior®. A number of NABI Bus customers have already indicated an interest in transitioning to Xcelsior®. The Company believes customers will benefit from the enhancements that result from its focus on a single heavy-duty platform.

Management believes pricing in certain types of bus competitions has begun to normalize. Management continues to pursue cost and overhead savings as a result of its decision to focus on the Xcelsior® bus platform as well as in daily operations through its Operational Excellence initiatives. The New Flyer backlog and orders anticipated to be awarded by customers under new procurements are expected to enable the Company to continue to operate at a corporate average line entry rate of approximately 51 EUs (including MiDi®) per production week for fiscal 2014 from the New Flyer and NABI Bus facilities. Management expects the corporate average line entry rate to remain stable at this level for 2015 as the Company executes on the rationalization of the NABI product lines to the Xcelsior®. Production rates may vary from quarter to quarter due to sales mix and the introduction of the Xcelsior into NABI's Anniston, AL facility.

**SELECTED QUARTERLY AND ANNUAL 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.
(unaudited, U.S. dollars in thousands, except for deliveries in EUs and per Share figures)

| Fiscal Period | Quarter | Revenue* | Earnings from Operations(1) | Net earnings | EBITDA (1) | Adjusted EBITDA (1) | Earnings per share |
|---|---|---|---|---|---|---|---|
| 2014 | Q3 | $ 360,762 | $ 12,898 | $ 10,245 | $ 22,910 | $ 25,697 | $ 0.18 |
| | Q2 | 346,484 | 11,763 | 3,563 | 19,894 | 26,966 | 0.06 |
| | Q1 | 323,865 | 10,384 | 5,484 | 18,102 | 19,666 | 0.10 |
| | **Total** | **$ 1,031,111** | **$ 35,045** | **$ 19,292** | **$ 60,906** | **$ 72,329** | **$ 0.35** |
| 2013 | Q4 | $ 381,204 | $ 23,977 | $ 13,732 | $ 31,281 | $ 36,830 | $ 0.25 |
| | Q3 | 306,509 | 13,842 | 7,832 | 21,710 | 24,416 | 0.14 |
| | Q2 | 266,576 | 6,794 | 1,684 | 13,331 | 18,063 | 0.03 |
| | Q1 | 245,135 | 6,496 | 3,513 | 12,788 | 15,376 | 0.08 |
| | **Total** | **$ 1,199,424** | **$ 51,109** | **$ 26,761** | **$ 79,110** | **$ 94,685** | **$ 0.52** |
| 2012 | Q4 | $ 208,141 | $ 7,725 | $ 3,929 | $ 14,061 | $ 14,451 | $ 0.09 |
| | Q3 | 206,384 | 7,820 | 1,523 | 13,889 | 14,072 | 0.03 |
| | Q2 | 224,762 | 10,686 | 3,398 | 11,055 | 16,366 | 0.08 |
| | Q1 | 225,963 | 7,260 | 440 | 13,282 | 15,936 | 0.01 |
| | **Total** | **$ 865,250** | **$ 33,491** | **$ 9,290** | **$ 52,287** | **$ 60,825** | **$ 0.21** |

| 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) | Finished goods (equivalent units)(2) & (3) |
|---|---|---|---|---|---|---|---|---|
| 2014 | Q3 | 366 | — | 654 | 621 | 399 | 309 | 90 |
| | Q2 | 306 | — | 642 | 582 | 366 | 292 | 74 |
| | Q1 | 273 | — | 587 | 554 | 306 | 286 | 20 |
| | **Total** | **273** | **—** | **1,883** | **1,757** | **399** | **309** | **90** |
| 2013 | Q4 | 320 | — | 588 | 635 | 273 | 241 | 32 |
| | 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** | **2,123** | **2,191** | **273** | **241** | **32** |
| 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** |

(*)Revenue has been restated for the retroactive correction of an error relating to revenue recognition of extended warranties and original equipment manufacturers' extended warranties as follows:

| **$U.S. in thousands** | 2012 Q1 | 2012 Q2 | 2012 Q3 | 2012 Q4 | 2013 Q1 | 2013 Q2 | 2013 Q3 | 2013 Q4 |
|---|---|---|---|---|---|---|---|---|
| **Decrease in revenue** | 1,681 | 2,218 | 2,037 | 1,729 | 2,243 | 2,093 | 2,447 | 2,753 |

The correction also equally decreased cost of sales and therefore did not have an impact on Earnings from Operations, net earnings, assets, liabilities or ending deficit of the Company. For details, see note 2.5 of the Financial Statements.

**COMPARISON OF THIRD QUARTER AND TRAILING TWELVE MONTHS RESULTS**

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

| | **13-Weeks Ended September 28, 2014** | 13-Weeks Ended September 29, 2013 (*restated) | **39-Weeks Ended September 28, 2014** | 39-Weeks Ended September 29, 2013 (*restated) | **52-Weeks Ended September 28, 2014** | 52-Weeks Ended September 29, 2013 (*restated) |
|---|---|---|---|---|---|---|
| **Statement of Earnings Data** | | | | | | |
| Revenue | | | | | | |
| Canada | $ 58,764 | $ 38,359 | $ 125,914 | $ 106,613 | $ 148,246 | $ 120,103 |
| U.S. | 219,949 | 209,819 | 669,519 | 564,590 | 960,409 | 730,298 |
| Bus manufacturing operations | 278,713 | 248,178 | 795,433 | 671,203 | 1,108,655 | 850,401 |
| Canada | 15,269 | 13,348 | 48,136 | 42,296 | 64,407 | 51,086 |
| U.S. | 66,780 | 44,983 | 187,542 | 104,721 | 239,253 | 124,874 |
| Aftermarket operations | 82,049 | 58,331 | 235,678 | 147,017 | 303,660 | 175,960 |
| Total revenue | $ 360,762 | $ 306,509 | $ 1,031,111 | $ 818,220 | $ 1,412,315 | $ 1,026,361 |
| Earnings from Operations(1) | $ 12,898 | $ 13,842 | $ 35,045 | $ 27,132 | $ 59,022 | $ 34,857 |
| Earnings before interest and income taxes | 12,781 | 15,598 | 35,548 | 26,772 | 57,739 | 34,241 |
| Net earnings | 10,245 | 7,832 | 19,292 | 13,029 | 33,024 | 16,958 |
| EBITDA(1) | 22,910 | 21,710 | 60,906 | 47,829 | 92,187 | 61,890 |
| Adjusted EBITDA(1) | | | | | | |
| Bus manufacturing operations including realized foreign exchange losses/gains | 12,557 | 15,882 | 34,197 | 36,336 | 61,510 | 46,499 |
| Aftermarket operations | 13,140 | 8,534 | 38,132 | 21,519 | 47,649 | 25,807 |
| Total Adjusted EBITDA(1) | $ 25,697 | $ 24,416 | $ 72,329 | $ 57,855 | $ 109,159 | $ 72,306 |
| **Other Data** | | | | | | |
| Canada | 154 | 100 | 323 | 266 | 374 | 299 |
| U.S. | 467 | 477 | 1,434 | 1,290 | 2,018 | 1,644 |
| Total deliveries (equivalent units)(2) | 621 | 577 | 1,757 | 1,556 | 2,392 | 1,943 |
| Total capital expenditures | $ 4,347 | $ 3,716 | $ 11,156 | $ 7,351 | $ 20,312 | $ 10,637 |
| New options awarded | $ 24,928 | $ 873,145 | $ 243,207 | $ 1,708,330 | $ 300,746 | $ 1,980,859 |
| New firm orders awarded | 33,186 | 501,079 | 255,634 | 838,733 | 353,795 | 1,031,405 |
| Exercised options | 171,872 | 53,312 | 510,290 | 170,107 | 614,584 | 244,720 |
| Total firm orders | $ 205,058 | $ 554,391 | $ 765,924 | $ 1,008,840 | $ 968,379 | $ 1,276,125 |

(*) Revenue for the 13-weeks, 39-weeks and 52-weeks ended September 29, 2013 has been restated for the retroactive correction of an error relating to revenue recognition of extended warranties and original equipment manufacturers' extended warranties. The correction also equally decreased cost of sales and therefore did not have an impact on Earnings from Operations, net earnings, assets, liabilities or ending deficit of the Company. For details, see footnote on page 8 of this MD&A and note 2.5 of the Financial Statements.

| (Unaudited, U.S. dollars in thousands) | **September 28, 2014** | | December 29, 2013 | | December 30, 2012 | |
|---|---|---|---|---|---|---|
| **Selected Statement of Financial Position Data** | | | | | | |
| Total assets | $ 1,129,121 | | $ 1,136,402 | | $ 897,224 | |
| Long-term financial liabilities | 333,613 | | 346,233 | | 322,844 | |
| **Other Data** | | Equivalent Units[2] | | Equivalent Units[2] | | Equivalent Units[2] |
| Firm orders – USA | $ 1,012,090 | 1,869 | $ 1,031,743 | 2,088 | $ 676,266 | 1,525 |
| Firm orders – Canada | 64,381 | 154 | 71,220 | 188 | 64,578 | 147 |
| Total firm orders | 1,076,471 | 2,023 | 1,102,963 | 2,276 | 740,844 | 1,672 |
| Options – USA | 1,873,084 | 3,929 | 2,442,771 | 5,136 | 1,787,685 | 4,320 |
| Options – Canada | 119,990 | 287 | 111,444 | 266 | 145,090 | 333 |
| Total options | 1,993,074 | 4,216 | 2,554,215 | 5,402 | 1,932,775 | 4,653 |
| Total backlog | $ 3,069,545 | 6,239 | $ 3,657,178 | 7,678 | $ 2,673,619 | 6,325 |

| **Equivalent Units in Backlog** | **39 Weeks Ended September 28, 2014** | | 52 Weeks Ended December 29, 2013 | | 52 Weeks Ended December 30, 2012 | |
|---|---|---|---|---|---|---|
| | Firm orders | Options | Firm orders | Options | Firm orders | Options |
| Beginning of period | 2,276 | 5,402 | 1,672[4] | 4,653[5] | 1,476[4] | 5,621[5] |
| New orders | 518 | 626 | 1,923 | 3,356 | 882 | 738 |
| NABI acquired backlog | — | — | 551 | 608 | — | — |
| Options exercised | 986 | (986) | 601 | (601) | 970 | (970) |
| Shipments | (1,757) | — | (2,191) | — | (1,656) | — |
| Removal of deferred order[4] [5] | — | — | (280) | (1,520) | — | — |
| Cancelled/expired | — | (826) | — | (1,094) | — | (736) |
| End of period | 2,023 | 4,216 | 2,276 | 5,402 | 1,672[4] | 4,653 [5] |

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:

| | |
|---|---|
| 2014 | 406 |
| 2015 | 927 |
| 2016 | 326 |
| 2017 | 560 |
| 2018 | 1,625 |
| 2019 | 372 |
| Total options | 4,216 |

(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.

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

(4) Included in the Company's total firm order backlog at the relevant time were 280 EUs under a major U.S. customer award. Based on discussions with this customer, it was uncertain whether any of these 280 EUs would enter the Company's production schedule. Management removed these EUs from the backlog at December 29, 2013.

(5) Included in the Company's total option backlog at the relevant time were 1,520 option EUs under a major U.S. customer award. Based on discussions with this customer, it was uncertain whether any of these 1,520 option EUs would be exercised prior to their expected expiry. Management removed these EUs from the backlog at December 29, 2013.

#### 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, US dollars in thousands) | **13-Weeks Ended September 28, 2014** | 13-Weeks Ended September 29, 2013 | **39-Weeks Ended September 28, 2014** | 39-Weeks Ended September 29, 2013 | **52-Weeks Ended September 28, 2014** | 52-Weeks Ended September 29, 2013 |
|---|---|---|---|---|---|---|
| Net earnings | $ 10,245 | $ 7,832 | $ 19,292 | $ 13,029 | $ 33,024 | $ 16,958 |
| Addback[1] | | | | | | |
| Income taxes (recovered) | (160) | 4,191 | 5,881 | 2,635 | 11,102 | 2,840 |
| Finance cost | 2,696 | 3,575 | 10,375 | 11,108 | 13,613 | 14,443 |
| Amortization | 10,012 | 7,868 | 25,861 | 20,697 | 33,165 | 27,033 |
| Unrealized foreign exchange (gain) loss on non-current monetary items | 117 | (1,756) | (503) | 360 | 1,283 | 616 |
| EBITDA[2] | 22,910 | 21,710 | 60,906 | 47,829 | 92,187 | 61,890 |
| Costs associated with assessing strategic and corporate initiatives[4] | — | 1,031 | — | 5,414 | 575 | 5,804 |
| Realized investment tax credits[5] | 2,392 | 1,190 | 6,117 | 3,262 | 10,990 | 3,262 |
| Non-recurring transitional costs relating to business acquisitions[6] | 48 | 385 | 581 | 1,152 | 581 | 1,152 |
| Impairment loss on equipment and intangible assets[7] | — | — | 3,919 | — | 3,919 | — |
| Product rationalization costs[8] | 189 | — | 285 | — | 285 | — |
| Stock-based compensation | 158 | 100 | 521 | 198 | 622 | 198 |
| Adjusted EBITDA[2] | $ 25,697 | $ 24,416 | $ 72,329 | $ 57,855 | $ 109,159 | $ 72,306 |

**RECONCILIATION OF CASH FLOW TO EBITDA AND ADJUSTED EBITDA**

| (Unaudited, US dollars in thousands) | **13-Weeks Ended September 28, 2014** | 13-Weeks Ended September 29, 2013 | **39-Weeks Ended September 28, 2014** | 39-Weeks Ended September 29, 2013 | **52-Weeks Ended September 28, 2014** | 52-Weeks Ended September 29, 2013 |
|---|---|---|---|---|---|---|
| Net cash generated by operations | $ 466 | $ 16,364 | $ 18,974 | $ 32,481 | $ 13,452 | $ 51,113 |
| Addback(1) | | | | | | |
| Changes in non-cash working capital items | 21,796 | 2,118 | 32,777 | (10,475) | 69,260 | (21,945) |
| Defined benefit funding | 849 | 2,235 | 2,990 | 6,557 | 5,147 | 9,864 |
| Defined benefit expense | (672) | (659) | (1,995) | (1,963) | (2,810) | (2,401) |
| Interest paid | 1,810 | 1,437 | 9,446 | 9,101 | 11,294 | 13,668 |
| Realized investment tax credits | (2,392) | (2,445) | (7,275) | (4,517) | (12,361) | (4,517) |
| Impairment loss on equipment and intangible assets | — | — | (3,919) | — | (3,919) | — |
| Stock-based compensation | (158) | (100) | (521) | (198) | (622) | (198) |
| Foreign exchange gain on cash held in foreign currency | (402) | (57) | (23) | 689 | (520) | 656 |
| Income taxes paid(3) | 1,613 | 2,817 | 10,452 | 16,154 | 13,266 | 15,650 |
| EBITDA(2) | 22,910 | 21,710 | 60,906 | 47,829 | 92,187 | 61,890 |
| Costs associated with assessing strategic and corporate initiatives(4) | — | 1,031 | — | 5,414 | 575 | 5,804 |
| Realized investment tax credits(5) | 2,392 | 1,190 | 6,117 | 3,262 | 10,990 | 3,262 |
| Non-recurring transitional costs relating to business acquisitions(6) | 48 | 385 | 581 | 1,152 | 581 | 1,152 |
| Impairment loss on equipment and intangible assets(7) | — | — | 3,919 | — | 3,919 | — |
| Product rationalization costs(8) | 189 | — | 285 | — | 285 | — |
| Stock-based compensation | 158 | 100 | 521 | 198 | 622 | 198 |
| Adjusted EBITDA(2) | $ 25,697 | $ 24,416 | $ 72,329 | $ 57,855 | $ 109,159 | $ 72,306 |

(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) 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 2013 YTD included a $8.0 million payment of NFI's 2012 Canadian income tax liability and installment payments as compared to no required installment payments in 2014 YTD.

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

(5) The Company recognizes ITCs in Adjusted EBITDA only during the period in which they are applied against income taxes payable. During 2014 Q3 LTM the Company recognized $12,361 of ITCs, however a related contractual liability exists to a customer of $1,371.

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

(7) On June 24, 2014 the Company announced its plan to rationalize to a common Xcelsior® platform for all heavy-duty and BRT transit buses. As a result, production of NABI Bus LFW and BRT models will be phased out in 2015 and an impairment charge on equipment and intangible assets was recorded.

(8) Normalized to exclude non-recurring expenses related to the plan to rationalize NABI Bus models to a common Xcelsior® platform.

## 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 28, 2014** | 13-Weeks Ended September 29, 2013 | **39-Weeks Ended September 28, 2014** | 39-Weeks Ended September 29, 2013 | **52-Weeks Ended September 28, 2014** | 52-Weeks Ended September 29, 2013 |
|---|---|---|---|---|---|---|
| Net cash generated by operations | $ 466 | $ 16,364 | $ 18,974 | $ 32,481 | $ 13,452 | $ 51,113 |
| Changes in non-cash working capital items(3) | 21,796 | 2,118 | 32,777 | (10,475) | 69,260 | (21,945) |
| Interest paid(3) | 1,810 | 1,437 | 9,446 | 9,101 | 11,294 | 13,668 |
| Interest expense(3) | (2,916) | (2,582) | (9,443) | (8,470) | (12,579) | (11,365) |
| Income taxes paid(3) | 1,613 | 2,817 | 10,452 | 16,154 | 13,266 | 15,650 |
| Current income tax expense(3) | (4,090) | (5,343) | (14,499) | (13,516) | (24,832) | (16,391) |
| Principal portion of finance lease payments | (456) | (403) | (1,133) | (1,617) | (1,519) | (2,179) |
| Cash capital expenditures(8) | (1,947) | (3,406) | (6,742) | (5,727) | (14,851) | (6,333) |
| Non-recurring transitional costs relating to business acquisitions(9) | 48 | 385 | 581 | 1,152 | 581 | 1,152 |
| Costs associated with assessing strategic and corporate initiatives(7) | — | 1,031 | — | 5,414 | 575 | 5,804 |
| Product rationalization costs(11) | 189 | — | 285 | — | 285 | — |
| Defined benefit funding(4) | 849 | 2,235 | 2,990 | 6,557 | 5,147 | 9,864 |
| Defined benefit expense(4) | (672) | (659) | (1,995) | (1,963) | (2,810) | (2,401) |
| Realized investment tax credits(10) | — | (1,255) | (1,158) | (1,255) | (1,371) | (1,255) |
| Foreign exchange gain on cash held in foreign currency(5) | (402) | (57) | (23) | 689 | (520) | 656 |
| Free Cash Flow (US$)(1) | 16,288 | 12,682 | 40,512 | 28,525 | 55,378 | 36,038 |
| U.S. exchange rate(2) | 1.0970 | 1.0358 | 1.0955 | 1.0301 | 1.0849 | 1.0441 |
| **Free Cash Flow(1) (C$)** | **17,868** | **13,136** | **44,383** | **29,385** | **60,083** | **37,628** |
| Free Cash Flow per Share (C$)(6) | 0.3220 | 0.2368 | 0.8000 | 0.5790 | 1.0831 | 0.7655 |
| **Declared dividends on Shares (C$)** | **8,116** | **8,112** | **24,341** | **22,594** | **32,453** | **29,084** |
| Declared dividend per Share (C$)(6) | $ 0.1462 | $ 0.1462 | $ 0.4388 | $ 0.4452 | $ 0.5850 | $ 0.5917 |

(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 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.

(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, management believes it should be included in the calculation of Free Cash Flow.

(6) 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 2014 Q3 was 55,483,741, 55,473,811 for 2014 YTD and 55,472,084 for 2014 Q3 LTM. 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 2013 Q3 LTM.

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

(8) 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.

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

(10) The Company recognizes ITCs in Adjusted EBITDA only during the period in which they are applied against income taxes payable. During 2014 Q3 LTM the Company recognized $12,361 of ITCs, however a related contractual liability exists to a customer of $1,371.

(11) Normalized to exclude non-recurring expenses related the plan to rationalize NABI Bus models to a common Xcelsior® platform.

**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 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 ("CAD") and the U.S. dollar ("USD"). 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. The Company also has supplier contracts denominated in Euros and British pounds primarily to supply parts for MiDi®.

The impact of the weakening Canadian dollar against the U.S. dollar is largely dependent on the Company's revenue mix by currency as operating costs denominated in Canadian dollars have been relatively stable. CAD denominated costs do not vary unless production is shifted between plants while the revenue exposure is based on the amount of CAD contracts that are recognized as revenue. Most of the material cost is already denominated in USD; however, labour cost as well as manufacturing overheads and selling, general and administrative costs have significant CAD denominated costs. During 2014 YTD, approximately 83% of revenue was USD denominated and approximately 17% was CAD denominated. As at September 28, 2014, the backlog consisted of firm CAD orders of 154 EUs ($64 million U.S. equivalent) representing approximately 6.0% of firm orders. CAD options at September 28, 2014 totaled 287 EUs ($120 million U.S. equivalent) representing approximately 6.0% of the option backlog. A portion of the Canadian based revenue eroded due to weakening Canadian dollar against the U.S. dollar, offset by the foreign exchange gain on CAD expenses. For new business, management factors the current exchange rate into pricing decisions to mitigate the impact on Canadian orders.

During 2014 Q3, the Company generated a net CAD inflow. Based on production plans as of the date hereof, management expects the Company's CAD dollars inflows to approximate its CAD dollar outflows during the fourth quarter of 2014. The expectation is based on current production plans and may change based on the amount of Canadian contracts delivered during the last quarter of Fiscal 2014. As a matter of policy, New Flyer enters into foreign exchange forward contracts to protect the expected net CAD exposure from exchange fluctuation. Management's strategy is to mitigate foreign currency exposure based on net cash flow rather than Adjusted EBITDA.

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 2014 Q3, the Company recorded realized foreign exchange loss of $0.2 million (2013 Q3: $0.4 million loss).

At September 28, 2014, the Company had $24.4 million of foreign exchange forward contracts to sell Canadian dollars, $4.0 million of foreign exchange forward contracts to buy Euros and contracts to buy $0.7 million of British pounds. The foreign exchange forward contracts range in expiry dates from October 2014 to March 2015. As well, the Company purchased a foreign exchange forward plus instrument that expires February 2015, whereby if USD/CAD foreign exchange rate is below 1.0590, NFI will be obligated to purchase the U.S. equivalent of C$15.0 million at 1.0895, however if USD/CAD rate is above 1.0590, NFI may exercise its USD call option to purchase the U.S. equivalent of C$15.0 million at 1.0895. The related asset of $0.1 million (December 2013: $0.7 million liability) is recorded on the interim condensed consolidated statements of financial position as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the interim consolidated statements of net earnings and total comprehensive income.

**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 30, 2013 to December 28, 2014 ("Fiscal 2014")** | | | **Period from December 31, 2012 to December 29, 2013 ("Fiscal 2013")** | | |
|---|---|---|---|---|---|---|
| | Period End Date | # of Calendar Weeks | # of Available Production Weeks | Period End Date | # of Calendar Weeks | # of Available Production Weeks |
| Quarter 1 | March 30, 2014 | 13 | 12.5 | March 31, 2013 | 13 | 12.4 |
| Quarter 2 | June 29, 2014 | 13 | 12.7 | June 30, 2013 | 13 | 12.8 |
| Quarter 3 | September 28, 2014 | 13 | 12.3 | September 29, 2013 | 13 | 12.4 |
| Quarter 4 | December 28, 2014 | 13 | 12.0 | December 29, 2013 | 13 | 12.0 |
| Fiscal year | December 28, 2014 | 52 | 49.5 | December 29, 2013 | 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) | **2014 Q3 (13-Weeks)** | 2013 Q3 (13-Weeks) (*restated) | **2014 YTD (39-Weeks)** | 2013 YTD (39-Weeks) (*restated) |
|---|---|---|---|---|
| Bus Manufacturing Revenue | $ 278,713 | $ 248,178 | $ 795,433 | $ 671,203 |
| Aftermarket Revenue | 82,049 | 58,331 | 235,678 | 147,017 |
| Total Revenue | $ 360,762 | $ 306,509 | $ 1,031,111 | $ 818,220 |
| Earnings from Operations(1) | 12,898 | 13,842 | 35,045 | 27,132 |
| Earnings before finance costs and income taxes | 12,781 | 15,598 | 35,548 | 26,772 |
| Earnings before income taxes | 10,085 | 12,023 | 25,173 | 15,664 |
| Net earnings for the period | 10,245 | 7,832 | 19,292 | 13,029 |

(*) Revenue for 2013 Q3 has been restated for the retroactive correction of an error relating to revenue recognition of extended warranties and original equipment manufacturers' extended warranties. The correction also equally decreased cost of sales and therefore did not have an impact on Earnings from Operations, net earnings, assets, liabilities or ending deficit of the Company. For details, see footnote on page 8 of this MD&A and note 2.5 of the Financial Statements.

(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 $360.8 million for 2014 Q3, an increase of 17.7% compared to consolidated revenue for 2013 Q3 of $306.5 million, and consolidated revenue for 2014 YTD of $1.0 billion, an increase of 26.0% from consolidated revenue for 2013 YTD of $818.2 million. The 2014 Q3 revenue growth is primarily a result of increased production and aftermarket volumes, whereas 2014 YTD's growth was also a result of business acquisitions in Fiscal 2013 and the CTA midlife overhaul program.

Revenue from bus manufacturing operations for 2014 Q3 was $278.7 million, an increase of 12.3% from $248.2 million in 2013 Q3. The increase in 2014 Q3 revenue primarily resulted from a 7.6% increase in total bus deliveries of 621 EUs in 2014 Q3 compared to 2013 Q3 deliveries of 577 EUs and a 4.3% increase in average selling price per EU in 2014 Q3 of $448.8 thousand compared to $430.1 thousand in 2013 Q3. Similarly, bus revenue for 2014 YTD of $795.4 million increased 18.5% from $671.2 million for 2013 YTD. Bus deliveries of 1,757 EUs in 2014 YTD increased 12.9% compared to 1,556 EUs in 2013 YTD and the average selling price per EU in 2014 YTD of $452.7 thousand increased 4.9% from $431.4 thousand in 2013 YTD. The increase in average selling price is the result of changes in the product sales mix, which included fewer articulated buses. The average selling price can be volatile when comparing fiscal quarters as a result of sales mix. The increased deliveries during 2014 YTD were primarily as a result of including NABI Bus deliveries effective June 21, 2013. However, bus inventory at the end of 2014 Q3 increased by 33 EUs compared to at the end of 2014 Q2. The increased EUs were not delivered as a result of delayed customer inspection and acceptance in respect of a few low margin contracts. Management expects to substantially recover deliveries on these contracts by year-end.

Revenue from aftermarket operations in 2014 Q3 was $82.0 million, an increase of 40.7% compared to $58.3 million in 2013 Q3 resulting from an improved aftermarket parts market. Revenue from aftermarket operations for 2014 YTD was $235.7 million, an increase of 60.3% compared to $147.0 million in 2013 YTD. The increase in aftermarket operations revenue during 2014 YTD is primarily a result of increased volumes as a result of incremental revenue from the CTA midlife overhaul program, the Orion parts business and the NABI Parts business.

***Cost of sales***

The consolidated cost of sales for 2014 Q3 of $326.5 million increased by 18.8% from 2013 Q3 consolidated cost of sales of $274.8 million. 2014 YTD consolidated cost of sales of $932.1 million increased by 25.9% from 2013 YTD of $740.4 million. The increased percentage of cost of sales is consistent with the related increase in revenue during 2014 YTD.

Costs of sales from bus manufacturing operations consist of direct contract costs and manufacturing overhead. The cost of sales from bus manufacturing operations for 2014 Q3 was $262.1 million (94.0% of revenue from bus manufacturing operations) compared to $229.5 million (92.5% of revenue from bus manufacturing operations) in 2013 Q3, an increase of 14.2%. This increase in cost of sales primarily relates to 7.6% more deliveries in 2014 Q3. The cost of sales from bus manufacturing operations of $748.2 million in 2014 YTD increased by 19.3% as compared to $627.0 million in 2013 YTD. This increase in cost of sales primarily relates to 12.9% more deliveries in 2014 YTD as compared to 2013 YTD and a product sales mix with a higher average cost of sales when comparing the two periods.

The cost of sales from aftermarket operations was $64.4 million (78.5% of aftermarket operations revenue) in 2014 Q3 which increased 42.2% compared to $45.3 million (77.7% of aftermarket operations revenue) in 2013 Q3. During 2014 YTD, cost of sales from aftermarket operations was $183.9 million (78.0% of aftermarket operations revenue) as compared to $113.4 million (77.1% of aftermarket operations revenue) in 2013 YTD, representing an increase of 62.2%, 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 2014 Q3 of $21.2 million increased 21.1% compared with $17.5 million in 2013 Q3. Consolidated SG&A for 2014 YTD were $58.6 million which increased 15.5% compared to $50.8 million in 2013 YTD. Deferred compensation expense increased $3.5 million during 2014 Q3 primarily as a result of an accounting provision made for the expected payment of $2.6 million for the 2012 performance share units, the performance targets in respect of which are now expected to be achieved. The increase in 2014 YTD SG&A is primarily a result of the addition of NABI and incremental costs associated with the marketing and start-up manufacturing costs of MiDi®. The SG&A for 2013 YTD also included $5.4 million of incremental costs to explore and assess strategic and corporate initiatives.

***Realized foreign exchange loss/gain***

In 2014 Q3, the Company recognized a net realized loss of $0.2 million compared with a net realized loss of $0.4 million in 2013 Q3. Similarly, in 2014 YTD the Company recognized a net realized loss of $1.4 million as compared with a net realized gain of $0.1 million in 2013 YTD. During 2014 YTD, the Company experienced a greater amount of unfavourable settlements of foreign exchange contracts which resulted in an increase of realized foreign exchange losses as compared to 2013 YTD.

***Earnings from operations***

Consolidated earnings from operations for 2014 Q3 in the amount of $12.9 million (3.6% of revenue) decreased 6.8% compared to earnings from operations in 2013 Q3 of $13.8 million (4.5% of revenue). 2014 YTD consolidated earnings from operations were $35.0 million (3.4% of revenue), which represents a 29.2% increase as compared to $27.1 million (3.3% of revenue) in 2013 YTD.

The earnings from bus manufacturing operations (including amortization and depreciation) for 2014 Q3 was $0.8 million (0.1% of bus manufacturing revenue), compared to earnings of $8.4 million for 2013 Q3 (1.0% of bus manufacturing revenue). The decreased earnings during 2014 Q3 are primarily a result of increased amortization and deferred compensation expense when comparing the two periods. 2014 YTD earnings from bus manufacturing operations of $0.3 million (0.1% of revenue) decreased compared to $11.7 million (1.7% of revenue) in 2013 YTD, primarily as a result of the $3.9 million impairment loss on equipment and intangible assets and lower than average margins, regarding which management had previously provided guidance. When reviewing performance of the bus manufacturing operations, it is also important to consider that corporate overhead costs are allocated fully to the bus business unit.

The earnings from aftermarket operations of $12.1 million (14.7% of aftermarket revenue) in 2014 Q3 increased 123.8% compared to 2013 Q3 earnings of $5.4 million (9.3% of aftermarket revenue). 2014 Q3 earnings from aftermarket operations increased primarily due to the contribution from the NABI Parts operations and by the CTA midlife overhaul program. The percentage of revenue was positively impacted by improved aftermarket parts market fundamentals and the benefits to the product mix that has resulted from a far broader portfolio of services and parts offerings to customers partially offset by lower margins on CTA midlife overhaul program. In 2014 YTD, the earnings from aftermarket operations were $34.7 million (14.7% of aftermarket revenue), compared to $15.4 million (10.4% of aftermarket revenue) in 2013 YTD.

***Unrealized foreign exchange gain/loss***

The Company has recognized a net unrealized foreign exchange gain/loss consisting of the following:

| (Unaudited, U.S. dollars in thousands) | 2014 Q3 | 2013 Q3 | 2014 YTD | 2013 YTD |
|---|---|---|---|---|
| Unrealized gain on forward foreign exchanges contracts | $ (401) | $ (1,492) | $ (846) | $ (125) |
| Unrealized loss (gain) on other non-monetary assets/liabilities | 518 | (264) | 343 | 485 |
| | $ 117 | $ (1,756) | $ (503) | $ 360 |

***Earnings before interest and income taxes ("EBIT")***

In 2014 Q3, the Company recorded EBIT of $12.8 million compared to EBIT of $15.6 million in 2013 Q3. The EBIT earned during 2014 YTD was $35.5 million compared to EBIT of $26.8 million in 2013 YTD. The EBIT recorded during 2014 YTD has increased primarily as a result of acquiring NABI on June 21, 2013. EBIT has been impacted by non-cash and non-recurring items as follows:

| (Unaudited, U.S. dollars in thousands) | 2014 Q3 | 2013 Q3 | 2014 YTD | 2013 YTD |
|---|---|---|---|---|
| Non-cash and non-recurring charges (recovery): | | | | |
| Costs associated with assessing strategic and corporate initiatives | $ 78 | $ 1,031 | $ 78 | $ 5,414 |
| Unrealized foreign exchange loss (gain) | 117 | (1,756) | (503) | 360 |
| Stock-based compensation | 158 | 100 | 521 | 198 |
| Impairment loss on equipment and intangible assets(*) | — | — | 3,919 | — |
| Product rationalization costs | 111 | — | 207 | |
| Non-recurring transitional costs relating to business acquisitions | 48 | 385 | 581 | 1,152 |
| Amortization | 10,012 | 7,868 | 25,861 | 20,697 |
| Total non-cash and non-recurring charges: | $ 10,524 | $ 7,628 | $ 30,664 | $ 27,821 |

(*) On June 24, 2014 the Company announced its plan to phase out production of NABI Bus LFW and BRT models from NABI's Anniston, AL facility and transition to the Xcelsior®. This is expected to occur in the second half of 2015. Management carried out a review of the recoverable amount of NABI Bus related assets. The review led to the recognition of an impairment loss of $3.8 million relating to the NABI Bus trade name. Management also identified $0.1 million of NABI Bus related equipment that no longer meets the definition of an asset and has been fully written-off. The total impairment loss of $3.9 million has been included in net earnings.

Absent these non-cash charges/recoveries, the 2014 Q3 EBIT would have been $23.3 million compared to $23.2 million in 2013 Q3.

***Finance costs***

The finance costs for 2014 Q3 were $2.7 million, decreased when compared to $3.6 million in 2013 Q3. The finance costs for 2014 YTD of $10.4 million decreased compared to $11.1 million in 2013 YTD, primarily as a result of the $0.7 million recovery related to the fair value adjustment on the interest rate swap.

***Earnings before income taxes ("EBT")***

EBT for 2014 Q3 of $10.1 million decreased compared to EBT of $12.0 million in 2013 Q3 and the EBT for 2014 YTD of $25.2 million improved compared to EBT of $15.7 million in 2013 YTD. The difference in the EBT between these periods results from the increased earnings from operations.

***Income tax expense***

The income tax expense recovered for 2014 Q3 was $0.2 million, consisting of $4.1 million of current income tax expense and $4.3 million of deferred income tax expense recovered. In comparison, the income tax expense recovered for 2013 Q3 was $4.2 million, which consisted of $5.3 million of current income tax expense and $1.1 million of deferred income tax expense recovered. The increase in the 2014 Q3 deferred income tax expense recovered primarily resulted from an increase in the unrealized foreign exchange loss calculated for tax purposes.

The income tax expense for 2014 YTD was $5.9 million, consisting of $14.5 million of current income tax expense and $8.6 million of deferred income tax expense recovered. In comparison, 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.

***Net earnings***

The Company reported net earnings of $10.2 million in 2014 Q3, which increased compared to net earnings of $7.8 million in 2013 Q3 and 2014 YTD net earnings of $19.3 million increased compared to 2013 YTD net earnings of $13.0 million. The increased net earnings in 2014 Q3 is primarily as a result of the decrease in income tax expense offset by an increase in the unrealized foreign exchange loss. Whereas, the increase in net earnings during 2014 YTD is primarily a result of increased Earnings from Operations offset by increased income taxes.

The Company's net earnings per Share in 2014 Q3 were $0.18, an increase from net earnings per Share of $0.14 generated during 2013 Q3. The net earnings per Share in 2014 YTD were $0.35, increased from net earnings per Share of $0.26 generated during 2013 YTD.

***Cash Flow***

The cash flows of the Company are summarized as follows:

| (Unaudited, U.S. dollars in thousands) | **2014 Q3** | **2013 Q3** | **2014 YTD** | **2013 YTD** |
|---|---|---|---|---|
| Cash generated by operating activities before non-cash working capital items and interest and income taxes paid | $ 25,685 | $ 22,736 | $ 71,649 | $ 47,261 |
| Interest paid | (1,810) | (1,437) | (9,446) | (9,101) |
| Income taxes paid | (1,613) | (2,817) | (10,452) | (16,154) |
| Net cash earnings | 22,262 | 18,482 | 51,751 | 22,006 |
| Changes in non-cash working capital items | (21,796) | (2,118) | (32,777) | 10,475 |
| Cash flow from operating activities | 466 | 16,364 | 18,974 | 32,481 |
| Cash flow from (used in) financing activities | 6,873 | (15,639) | (14,159) | 79,212 |
| Cash flow used in investing activities | $ (2,590) | $ (3,622) | $ (8,027) | $ (100,045) |

***Cash flows from operating activities***

The 2014 Q3 net operating cash inflow of $0.5 million is the result of $22.3 million of net cash earnings offset by an increase in non-cash working capital of $21.8 million and compared to 2013 Q3 net operating cash inflow of $16.4 million which was the result of $18.5 million of net cash earnings offset by an increase in non-cash working capital of $2.1 million. The cash used from non-cash working capital changes during 2014 Q3 is primarily due to increased bus inventory due to delayed customer inspection and acceptance in respect of a few low margin contracts. Management expects to substantially recover deliveries on these contracts by year-end.

***Cash flow from financing activities***

The Company's financing activities resulted in a net cash inflow of $6.9 million and a cash outflow $15.6 million for 2014 Q3 and 2013 Q3, respectively. The cash inflow during 2014 Q3 primarily relates to $15.0 million of cash proceeds drawn from the Revolver, which was used to fund working capital growth, offset by $7.5 million for payment of dividends. The cash outflow during 2013 Q3 primarily relates to $7.5 million of dividend payments and a net repayment of $7.5 million of the Revolver.

***Cash flow from investing activities***

2014 Q3 investing activities resulted in a net cash outflow of $2.6 million compared to $3.6 million in 2013 Q3. Cash outflows were primarily as a result of property, plant and equipment ("PPE") expenditures shown below:

| (Unaudited, U.S. dollars in thousands) | **2014 Q3** | **2013 Q3** | **2014 YTD** | **2013 YTD** |
|---|---|---|---|---|
| PPE expenditures | $ 4,347 | $ 3,716 | $ 11,156 | $ 7,351 |
| Less PPE expenditures funded as part of Orion parts business | — | — | — | (394) |
| Less PPE expenditures funded by capital leases | (1,815) | (132) | (3,300) | (555) |
| Acquisition of PPE reported on statement of cash flows | 2,532 | 3,584 | 7,856 | 6,402 |
| Less PPE expenditures funded by senior term loan for asset acquisitions | (585) | (178) | (1,114) | (675) |
| Cash PPE expenditure | $ 1,947 | $ 3,406 | $ 6,742 | $ 5,727 |

*Term loan was required to be drawn in fiscal 2012. The proceeds have been applied to PPE expenditures during 2014 YTD and 2013 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, the 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.

The Company generated Free Cash Flow of C$17.9 million during 2014 Q3 as compared to C$13.1 million in 2013 Q3 primarily as a result of improved Adjusted EBITDA, decreased cash capital expenditures and current income taxes. The Company declared dividends in 2014 Q3 of C$8.1 million similar to C$8.1 million in 2013 Q3.

The Company generated Free Cash Flow of C$44.4 million during 2014 YTD as compared to C$29.4 million in 2013 YTD. The Company declared dividends in 2014 YTD of C$24.3 million as compared to C$22.6 million in 2013 YTD. The amount of dividends declared increased in 2014 YTD primarily as a result of issuing 11.1 million Shares in Fiscal 2013 to Marcopolo. Management believes that sufficient Free Cash Flow will be generated to maintain the current annual dividend rate of C$0.585 per Share, which was set by the Board effective August 2012. The Company has paid dividends to shareholders for 108 consecutive months since the Company's initial public offering in August 2005.

During 2014 Q3, the increased investment in non-cash working capital items, such as increased bus inventories resulted in a $15.0 million draw on the Revolver.

The September 28, 2014 liquidity position of $58.8 million is comprised of available cash of $8.7 million and $50.1 million available under the Revolver as compared to a liquidity position of $69.2 million at December 29, 2013. As at September 28, 2014, there were $45.0 million of direct borrowings and $19.9 million of outstanding letters of credit related to the $115.0 million Revolver.

Management believes that the current liquidity 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 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.

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. Under the Credit Facility, the Debentures are treated as equity for purposes of calculating the total leverage ratio. At September 28, 2014, the Company was in compliance with the financial covenants under the Credit Facility.

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

| | **September 28, 2014** | June 29, 2014 | December 29, 2013 |
|---|---|---|---|
| Total Leverage Ratio (must be less than 3.25) | 1.76 | 1.69 | 1.67 |
| Interest Coverage Ratio (must be greater than 3.00) | 8.68 | 8.81 | 9.21 |

***Interest rate risk***

In connection with the Credit Facility, the Company has an interest rate swap designed to hedge floating rate exposure for the term of the Credit Facility on $142 million of drawn term loan. The current interest rate swap fixes the interest rate at 1.46% plus the applicable interest margin until April 2017. The fair value of the interest rate swap liability of $1.8 million at September 28, 2014 (December 29, 2013: $2.5 million) was recorded on the interim condensed 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 - up to 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 interim condensed consolidated statements of net earnings and total comprehensive income.

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

| | **September 28, 2014** | December 29, 2013 |
|---|---|---|
| Current, including holdbacks | $ 156,118 | $ 213,101 |
| Past due amounts but not impaired | | |
| 1 – 60 days | 8,037 | 16,370 |
| Greater than 60 days | 289 | 1,270 |
| Less: allowance for doubtful accounts | (323) | (426) |
| Total accounts receivables, net | $ 164,121 | $ 230,315 |

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 28, 2014:

| U.S. dollars in thousands | Total | 2014 | 2015 | 2016 | 2017 | 2018 | Post 2018 |
|---|---|---|---|---|---|---|---|
| Senior term loan | $ 154,500 | $ 1,250 | $ 5,000 | $ 5,000 | $ 143,250 | $ — | $ — |
| Convertible debentures | 76,893 | 2,025 | 4,050 | 4,050 | 66,768 | — | — |
| Other long-term liabilities | 9,410 | 1,000 | 3,000 | 2,250 | 1,000 | 1,000 | 1,160 |
| Finance leases | 5,468 | 630 | 1,801 | 1,639 | 943 | 376 | 79 |
| Accrued pension benefit | 1,000 | 1,000 | — | — | — | — | — |
| Operating leases | 48,086 | 2,859 | 5,953 | 5,700 | 5,771 | 5,682 | 22,121 |
| | $ 295,357 | $ 8,764 | $ 19,804 | $ 18,639 | $ 217,732 | $ 7,058 | $ 23,360 |

As at September 28, 2014, outstanding surety bonds guaranteed by the Company amounted to $119.7 million, representing a decrease compared to $147.2 million at December 29, 2013. The estimated maturity dates of the surety bonds outstanding at September 28, 2014 range from October 2014 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 28, 2014, letters of credit amounting to $19.9 million (December 29, 2013: $22.7 million) remained outstanding under the letter of credit facility as security for the contractual obligations of the Company.

The Company does not have any off-balance sheet arrangement or any material capital asset commitments at September 28, 2014.

***Stock Option Plan***

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 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 reserved for issuance under the Option Plan. The Options become vested as to one-quarter on the first grant date anniversary and an additional one-quarter on the second, third and fourth anniversary of such 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.

| Option series | Number | Vested | Exercised | Unvested | Expiry date | Exercise price | Fair Value at grant date |
|---|---|---|---|---|---|---|---|
| Granted on March 26, 2013 | 490,356 | 120,090 | 2,500 | 367,766 | March 26, 2021 | C$10.20 | C$1.55 |
| Granted on December 30, 2013 | 612,050 | — | — | 612,050 | December 30, 2021 | C$10.57 | C$1.44 |
| | 1,102,406 | 120,090 | 2,500 | 979,816 | | C$10.41 | |

The following reconciles the stock options outstanding:

| | September 28, 2014 | | December 29, 2013 | |
|---|---|---|---|---|
| | Number | Weighted average exercise price | Number | Weighted average exercise price |
| Balance at beginning of period | 490,356 | C$10.20 | — | — |
| Granted during the period | 612,050 | C$10.57 | 490,356 | C$10.20 |
| Exercised during the period | (2,500) | C$10.20 | — | — |
| Balance at end of period | 1,099,906 | C$10.41 | 490,356 | C$10.20 |

On March 28, 2014, 2,500 stock options were exercised at a price of C$10.20. The Share price on the exercise date was C$11.21.

### *Critical accounting estimates and judgments*

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. Estimates are reviewed on a regular basis and, as adjustments become necessary, they are reported in the consolidated statements of net earnings and total comprehensive income for the periods in which they become known. The assets and liabilities which require management to make significant estimates and assumptions in determining carrying values include, but are not limited to, inventories, derivative financial instruments, property, plant and equipment, intangible assets, goodwill, provision for warranty costs, accrued benefit liability, accrued bonus liability, deferred compensation obligation and deferred income taxes.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment are addressed below.

*Intangible assets and goodwill*

The values associated with intangible assets and goodwill involve significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives. These significant estimates are subject to the Company's future results. These determinations will affect the amount of amortization expense on intangible assets recognized in future periods. The Company assesses impairment by comparing the recoverable amount of an intangible asset or goodwill with its carrying value. The determination of the recoverable amount involves significant estimation by management. Goodwill is allocated to the Company's three Cash Generating Units ("CGUs") for the purpose of impairment testing.  The Company performs its annual test for impairment of goodwill and trade names in the fourth quarter of each year.

*Employee benefits*

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Determination of benefit expense requires assumptions such as the discount rate to measure obligations and return on assets, the projected age of employees upon retirement and the expected rate of future compensation changes. Actual results will differ from results which are estimated by managment based on assumptions.

*Income Taxes*

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire. The Company's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of the Company's ability to utilize the underlying future tax deductions changes, the Company would be required to recognize more or fewer of the tax deductions as assets, which would decrease or increase the income tax expense in the period in which this is determined.

The Company is subject to taxation in multiple jurisdictions. Significant judgment is required in determining the worldwide provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions for uncertain tax positions are made using management's best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The actual tax expense will differ from provisions which are estimated by management based on assumptions.  Management reviews the adequacy of these provisions at each consolidated statements of financial position date. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

*Provision for Warranty Costs*

The Company offers warranties for its sale of buses. Management estimates the related provision for future warranty claims based on historical warranty claim information as well as recent trends that might suggest that past cost information may differ from future claims. Factors that could impact the estimated claim information include the success of the Company's productivity and quality initiatives as well as parts and labour costs. Actual warranty expense will differ from the provisions which are estimated by management based on assumptions.

Critical judgments in applying accounting policies

The following critical judgments that were made by management have the most significant effect on the amounts recognized in the financial statements.

*Revenue recognition*

The Company assessed the criteria for the recognition of revenue related to arrangements that have multiple components as set out in IAS 18. Judgment is necessary to determine when components can be recognized separately and the allocation of the related consideration allocated to each component. Also, the Company assessed the criteria for the recognition of revenue in an agency relationship related to the sale of extended warranties that are purchased for the customer from the original equipment manufacturer as set out in IAS 18.

*Functional currency*

The Company assessed the criteria for the determination of functional currency as set out in IAS 21. An entity is required to place the greatest weight on the currency that influences the pricing of the transactions that it undertakes rather than focus on the currency in which the transactions are denominated in. The functional currency of the Company is the United States dollar as it is the currency of the primary economic environment in which the Company operates. In addition, it is the competitive forces of the United States marketplace that determine the sales prices of its goods and services. Predominantly, the costs for labour, material and overhead that address the needs and support the Company's customers are incurred in United States dollars, and hence the pricing of goods and services to the customer is more greatly influenced from operations and the competitive forces in the United States.

*Goodwill*

Judgment is required in the selection of CGUs and the allocation of assets and liabilities to these CGUs, which is necessary to assess the impairment of long term assets, goodwill and intangible assets. Management has determined that for purposes of this evaluation the Company has three CGUs: bus manufacturing, aftermarket parts operations (excluding NABI Parts) and NABI Parts.

**Standards recently adopted**

International Financial Reporting Interpretations Committee ("IFRIC") 21 – Levies

IFRIC 21 provides guidance on when to recognize a liability to pay a levy imposed by the government that is accounted for in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets. The application of IFRIC 21 had no material impact on the Company's financial position or performance.

**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:

On July 24, 2014, the International Accounting Standards Board ("IASB") issued IFRS 9 to replace IAS 39, which is effective January 1, 2018 and early adoption is permitted. The Company is in the process of reviewing the standard to determine the impact on the Company's financial statements.

IFRS 15 – Revenue from Contracts with Customers:

On May 28, 2014, the IASB issued IFRS 15 – Revenue from Contract with Customers, which is effective January 1, 2017 and early adoption is permitted. Under this standard, revenue will be recognized over time in manner that best reflects the Company's performance, or at a point in time, when control of the good or service is transferred to customers. The Company is in the process of reviewing the standard to determine the impact on the Company's financial statements.

**Controls and Procedures**

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining internal controls over financial reporting ("ICFR"), as defined under rules adopted by the Canadian Securities Administrators. ICFR were designed under the supervision of, and with the participation of, the 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 29, 2013 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.

Management believes there have been no changes in the Company's ICFR during 2014 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's CEO and CFO have concluded that disclosure controls and procedures as at December 29, 2013 were effective.

Interim Condensed Consolidated Financial Statements of

# NEW FLYER INDUSTRIES INC.

September 28, 2014

(Unaudited)

## TABLE OF CONTENTS

# NEW FLYER INDUSTRIES INC.

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET EARNINGS AND TOTAL COMPREHENSIVE INCOME**
**For the period ended September 28, 2014**
(unaudited, in thousands of U.S. dollars except per share figures)

| | **13-Weeks Ended September 28, 2014** | 13-Weeks Ended September 29, 2013 Restated (note 2.5) | **39-Weeks Ended September 28, 2014** | 39-Weeks Ended September 29, 2013 Restated (note 2.5) |
|---|---|---|---|---|
| Revenue (note 14) | $ 360,762 | $ 306,509 | $ 1,031,111 | $ 818,220 |
| Cost of sales (note 4) | 326,482 | 274,807 | 932,088 | 740,431 |
| **Gross profit** | 34,280 | 31,702 | 99,023 | 77,789 |
| Sales, general and administration costs and other operating expenses | 21,156 | 17,475 | 58,644 | 50,779 |
| Foreign exchange loss (gain) | 226 | 385 | 1,415 | (122) |
| Impairment loss on equipment and intangible assets(note 5) | — | — | 3,919 | — |
| **Earnings from operations** | 12,898 | 13,842 | 35,045 | 27,132 |
| Unrealized foreign exchange loss (gain) on non-current monetary items | 117 | (1,756) | (503) | 360 |
| **Earnings before interest and income taxes** | 12,781 | 15,598 | 35,548 | 26,772 |
| **Finance costs** | | | | |
| Interest on long-term debt and convertible debentures | 2,203 | 1,877 | 6,717 | 6,136 |
| Accretion in carrying value of long-term debt and convertible debentures | 565 | 531 | 1,654 | 1,680 |
| Other interest and bank charges | 713 | 705 | 2,726 | 2,334 |
| Fair value adjustment on interest rate swap | (785) | 462 | (722) | 958 |
| | 2,696 | 3,575 | 10,375 | 11,108 |
| **Earnings before income tax expense** | 10,085 | 12,023 | 25,173 | 15,664 |
| **Income tax expense (recovered)** (note 6) | | | | |
| Current income taxes | 4,090 | 5,343 | 14,499 | 13,516 |
| Deferred taxes (recovered) | (4,250) | (1,152) | (8,618) | (10,881) |
| | (160) | 4,191 | 5,881 | 2,635 |
| **Net earnings for the period** | $ 10,245 | $ 7,832 | $ 19,292 | $ 13,029 |
| **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 | 761 | — | 761 | — |
| **Total comprehensive income for the period** | $ 9,484 | $ 7,832 | $ 18,531 | $ 13,029 |
| **Net earnings per share (basic)** (note 10) | $ 0.18 | $ 0.14 | $ 0.35 | $ 0.26 |
| **Net earnings per share (diluted)** (note 10) | $ 0.18 | $ 0.14 | $ 0.35 | $ 0.26 |

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 28, 2014**

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

| | September 28, 2014 | December 29, 2013<br>Restated (note 2.5) |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash | $ 8,661 | $ 11,896 |
| Income taxes receivable | 3,423 | — |
| Accounts receivable (note 3,13e) | 164,121 | 230,315 |
| Inventories (note 4) | 267,372 | 183,338 |
| Derivative financial instruments (note 13b) | 107 | — |
| Prepaid expenses and deposits | 4,557 | 7,658 |
| | 448,241 | 433,207 |
| Property, plant and equipment | 65,177 | 64,832 |
| Unused investment tax credits | 6,384 | 13,659 |
| Deferred tax assets (note 6) | 58,584 | 55,290 |
| Goodwill and intangible assets (note 5) | 550,735 | 569,414 |
| | $ 1,129,121 | $ 1,136,402 |
| **Liabilities** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | $ 227,100 | $ 213,488 |
| Income taxes payable | — | 504 |
| Current portion of deferred revenue | 36,782 | 57,614 |
| Provision for warranty costs (note 16) | 28,716 | 26,102 |
| Current portion of long-term debt (note 7) | 45,000 | 35,000 |
| Derivative financial instruments | — | 740 |
| Current portion of deferred compensation obligation | 3,863 | 258 |
| Current portion of obligations under finance leases | 1,748 | 1,283 |
| | 343,209 | 334,989 |
| Accrued benefit liability | 582 | 228 |
| Obligations under finance leases | 3,388 | 1,770 |
| Deferred compensation obligation | 3,156 | 1,663 |
| Deferred revenue | 5,441 | 17,382 |
| Other long-term liabilities | 8,766 | 9,303 |
| Deferred tax liabilities (note 6) | 110,511 | 114,816 |
| Long-term debt (note 7) | 140,619 | 140,241 |
| Convertible debentures (note 8) | 59,364 | 58,322 |
| Derivative financial instruments (note 13b, 13c) | 1,786 | 2,508 |
| | 676,822 | 681,222 |
| **Commitments and contingencies** (note 15) | | |
| **Shareholders' equity** | | |
| Share capital (note 9) | 589,488 | 589,208 |
| Stock option reserve | 816 | 299 |
| Equity component of convertible debentures (note 8) | 3,821 | 3,841 |
| Accumulated other comprehensive loss | (5,762) | (5,001) |
| Deficit | (136,064) | (133,167) |
| | 452,299 | 455,180 |
| | $ 1,129,121 | $ 1,136,402 |

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

Authorized for issue by the board of directors on November 5, 2014.

# NEW FLYER INDUSTRIES INC.

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**For the period ended September 28, 2014**

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

| | Share Capital | Equity Component of Convertible Debentures (note 8) | Stock Option Reserve | Accumulated Other Comprehensive Loss | Deficit | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| **Balance, December 30, 2012** | **$ 476,918** | **$ 3,841** | **$ —** | **$ (6,490)** | **$ (130,281)** | **$ 343,988** |
| Net earnings | — | — | — | — | 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** |
| Net earnings | — | — | — | — | 13,732 | 13,732 |
| Other comprehensive income | — | — | — | 1,489 | — | 1,489 |
| Dividends declared on common shares | — | — | — | — | (7,682) | (7,682) |
| Share based compensation | — | — | 100 | — | — | 100 |
| **Balance, December 29, 2013** | **$ 589,208** | **$ 3,841** | **$ 299** | **$ (5,001)** | **$ (133,167)** | **$ 455,180** |
| Net earnings | — | — | — | — | 19,292 | 19,292 |
| Dividends declared on common shares | — | — | — | — | (22,189) | (22,189) |
| Other comprehensive loss (net of tax $526) | — | — | — | (761) | — | (761) |
| Share based compensation | — | — | 521 | — | — | 521 |
| Shares issued (note 9) | 26 | — | (4) | — | — | 22 |
| Conversion of debentures to common shares (note 8) | 254 | (20) | — | — | — | 234 |
| **Balance, September 28, 2014** | **$ 589,488** | **$ 3,821** | **$ 816** | **$ (5,762)** | **$ (136,064)** | **$ 452,299** |

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 28, 2014**
(unaudited, in thousands of U.S. dollars except per share figures)

| Cash generated by (used in) | **13-Weeks Ended September 28, 2014** | 13-Weeks Ended September 29, 2013 | **39-Weeks Ended September 28, 2014** | 39-Weeks Ended September 29, 2013 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Net earnings for the period | $ 10,245 | $ 7,832 | $ 19,292 | $ 13,029 |
| Income tax (recovered) expense | (160) | 4,191 | 5,881 | 2,635 |
| Depreciation of plant and equipment | 4,605 | 3,011 | 10,811 | 7,088 |
| Amortization of intangible assets | 5,407 | 4,857 | 15,050 | 13,609 |
| Finance costs recognized in profit or loss | 2,696 | 3,575 | 10,375 | 11,108 |
| Unrealized foreign exchange loss (gain) on non-current monetary items | 117 | (1,756) | (503) | 360 |
| Foreign exchange loss (gain) on cash held in foreign currency | 402 | 57 | 23 | (689) |
| Impairment loss on equipment and intangible assets | — | — | 3,919 | — |
| Share based compensation | 158 | 100 | 521 | 198 |
| Realized investment tax credits | 2,392 | 2,445 | 7,275 | 4,517 |
| Defined benefit expense | 672 | 659 | 1,995 | 1,963 |
| Defined benefit funding | (849) | (2,235) | (2,990) | (6,557) |
| Cash generated by operating activities before non-cash working capital items and interest and income taxes paid | 25,685 | 22,736 | 71,649 | 47,261 |
| Changes in non-cash working capital items (note 11) | (21,796) | (2,118) | (32,777) | 13,495 |
| Cash generated by operations before interest and income taxes paid | 3,889 | 20,618 | 38,872 | 60,756 |
| Interest paid | (1,810) | (1,437) | (9,446) | (9,101) |
| Income taxes paid | (1,613) | (2,817) | (10,452) | (16,154) |
| Net cash generated by operating activities | 466 | 16,364 | 18,974 | 35,501 |
| **Financing activities** | | | | |
| Repayment of obligations under finance leases | (456) | (403) | (1,133) | (1,617) |
| Share issuance | — | — | 23 | 113,782 |
| Costs associated with share issuance | — | — | — | (2,051) |
| Proceeds from issuance (repayment) of long-term debt | 15,000 | (7,458) | 10,000 | (9,391) |
| Repayment of other long-term liabilities | (162) | — | (760) | — |
| Dividends paid | (7,509) | (7,778) | (22,289) | (21,511) |
| Net cash generated (used) by financing activities | 6,873 | (15,639) | (14,159) | 79,212 |
| **Investing activities** | | | | |
| Net cash used in acquisition of NABI business | — | — | — | (75,023) |
| Acquisition of Orion aftermarket parts business | — | — | — | (20,608) |
| Acquisition of accounts receivables connected with purchase of Orion aftermarket parts business | — | — | — | (5,920) |
| Acquisition of intangible assets | (58) | (38) | (171) | (5,112) |
| Acquisition of property, plant and equipment | (2,532) | (3,584) | (7,856) | (6,402) |
| Net cash used in investing activities | (2,590) | (3,622) | (8,027) | (113,065) |
| Effect of foreign exchange rate on cash | (402) | (57) | (23) | 689 |
| **Increase (decrease) in cash** | 4,347 | (2,954) | (3,235) | 2,337 |
| **Cash — beginning of period** | 4,314 | 16,473 | 11,896 | 11,182 |
| **Cash — end of period** | $ 8,661 | $ 13,519 | $ 8,661 | $ 13,519 |

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 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 5, 2014.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Statements are the same as those applied by the Company in its consolidated financial statements as at and for the 52-week period ended December 29, 2013. These Statements should be read in conjunction with the Company's consolidated financial statements as at and for the 52-week period ended December 29, 2013.

### 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 International Financial Reporting Standards ("IFRS") which requires management to make judgments, 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 judgments 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 as at and for the 52-week period ended December 29, 2013.

### 2.3 Principles of consolidation

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

The Company and Alexander Dennis Limited have a contractual joint arrangement for the commercialization of MiDi®, a mid-sized bus, in the medium-duty transit markets in Canada and the United States. The Company is responsible for sales, marketing, manufacturing and aftermarket support with Alexander Dennis Limited performing engineering, test and prototype development activities. The Company recognizes in relation to its interest in a joint operation: its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly; its revenue from the sale of its share of the output arising from the joint operation; its share of the revenue from the sale of the output by the joint operation; and its expenses, including its share of any expenses incurred jointly.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Standards recently adopted

International Financial Reporting Interpretations Committee ("IFRIC") 21 – Levies

IFRIC 21 provides guidance on when to recognize a liability to pay a levy imposed by the government that is accounted for in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets. The application of IFRIC 21 had no material impact on the Company's financial position or performance.

### 2.5 Comparative information

In preparing the 2013 comparative information, the Company has adjusted amounts reported previously in the consolidated financial statements as a result of the retroactive correction of an error relating to revenue recognition of extended warranties and original equipment manufacturers' extended warranties. The following are the impacts on the Company's Statements for the 13-weeks and 39-weeks ended September 29, 2013.

| Net earnings and total comprehensive income impact | 13-Weeks ended September 29, 2013 ("2014 Q3") | 39-Weeks ended September 29, 2013 ("2014 YTD") |
|---|---|---|
| Decrease in revenue | $ 2,447 | $ 6,783 |
| Decrease in cost of sales | 2,447 | 6,783 |
| Net earnings and total comprehensive income impact | $ — | $ — |

Also, goodwill was restated on the interim condensed consolidated statements of financial position for December 29, 2013. The Company adjusted the preliminary purchase price allocation relating to the acquisition of 100% of the voting equity interest in NABI-Optima Holdings Inc. ("NABI") to account for information that was not readily available at the June 21, 2013 acquisition date. The adjustments recorded resulted in a total increase to goodwill of $550 from the amount originally reported at December 29, 2013. The purchase price allocation of goodwill was finalized during the 13-week period ended June 29, 2014.

### 2.6 Standards issued but not yet adopted

IFRS 9 - Financial Instruments:

On July 24, 2014, the International Accounting Standards Board ("IASB") issued IFRS 9 to replace IAS 39, which is effective January 1, 2018 and early adoption is permitted. The Company is in the process of reviewing the standard to determine the impact on the Company's financial statements.

IFRS 15 – Revenue from Contracts with Customers:

On May 28, 2014, the IASB issued IFRS 15 – Revenue from Contract with Customers, which is effective January 1, 2017 and early adoption is permitted.  Under this standard, revenue will be recognized over time in a manner that best reflects the Company's performance, or at a point in time, when control of the good or service is transferred to customers. The Company is in the process of reviewing the standard to determine the impact on the Company's financial statements.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.7 Fiscal periods

The Company's 2014 fiscal period is divided in quarters as follows:

| | **Period from December 30, 2013 to December 28, 2014 ("Fiscal 2014")** | | **Period from December 31, 2012 to December 29, 2013 ("Fiscal 2013")** | |
|---|---|---|---|---|
| | Period End Date | # of Weeks | Period End Date | # of Weeks |
| Quarter 1 | March 30, 2014 | 13 | March 31, 2013 | 13 |
| Quarter 2 | June 29, 2014 | 13 | June 30, 2013 | 13 |
| Quarter 3 | September 28, 2014 | 13 | September 29, 2013 | 13 |
| Quarter 4 | December 28, 2014 | 13 | December 29, 2013 | 13 |
| Fiscal year | December 28, 2014 | 52 | December 29, 2013 | 52 |

## 3. ACCOUNTS RECEIVABLE

| | **September 28, 2014** | December 29, 2013 |
|---|---|---|
| Trade | $ 151,647 | $ 221,314 |
| Other | 12,474 | 9,001 |
| | $ 164,121 | $ 230,315 |

## 4. INVENTORIES

| | **September 28, 2014** | December 29, 2013 |
|---|---|---|
| Raw materials | $ 142,036 | $ 108,166 |
| Work in process | 87,606 | 64,670 |
| Finished goods | 37,730 | 10,502 |
| | $ 267,372 | $ 183,338 |

| | **13-Weeks Ended September 28, 2014** | 13-Weeks Ended September 29, 2013 | **39-Weeks Ended September 28, 2014** | 39-Weeks Ended September 29, 2013 |
|---|---|---|---|---|
| Cost of inventories recognized as expense and included in cost of sales | $ 314,952 | $ 253,460 | $ 896,158 | $ 681,920 |
| Write-down of inventory to net realizable value in cost of sales | 1,175 | 517 | 2,302 | 1,007 |
| Reversals of a previous write-down in inventory | 83 | — | 335 | — |

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

**5. GOODWILL AND INTANGIBLE ASSETS**

| | Goodwill | Trade names | Patents and Licenses | Customer relationships | Total |
|---|---|---|---|---|---|
| Cost | $ 212,655 | $ 161,300 | $ 110,125 | $ 190,821 | $ 674,901 |
| Accumulated amortization | — | — | (55,411) | (50,076) | (105,487) |
| **December 29, 2013 net book value** | 212,655 | 161,300 | 54,714 | 140,745 | 569,414 |
| Additions | — | — | 171 | — | 171 |
| Amortization charge | — | (69) | (7,925) | (7,056) | (15,050) |
| Impairment loss | — | (3,800) | — | — | (3,800) |
| **September 28, 2014 net book value** | $ 212,655 | $ 157,431 | $ 46,960 | $ 133,689 | $ 550,735 |

Impairment losses

On June 24, 2014 the Company announced its plan to rationalize to a common Xcelsior® platform for all heavy-duty and bus rapid transit ("BRT") buses. As a result, production of NABI LFW and NABI BRT models will be phased out, with the Anniston, Alabama facility expected to transition to Xcelsior in the second half of 2015. The Company expects to deliver NABI Bus orders as previously committed and to provide support for NABI Bus customers of the LFW and BRT products for as long as those buses are in service.

Management carried out a review of the recoverable amount of related assets. The review led to the recognition of an impairment loss of $3,800 relating to the NABI Bus trade name. Management also identified $119 of NABI Bus related equipment that no longer meets the definition of an asset and has been fully written-off. The total impairment loss of $3,919 has been included in net earnings and total comprehensive income. These assets are used in the Company's Bus Operations cash generating unit ("CGU").

Management has identified NABI Bus related equipment and patents with an approximate net book value of $9,300 that will be used to manufacture the remaining NABI Bus LFW bus models through to the second half of 2015. The estimated useful lives of the identified equipment and intangible assets have been adjusted to align with the final production dates and depreciation and amortization will be accelerated accordingly.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use estimated cash flow projections based on financial plans approved by the Board covering a three-year period and discount rates based on weighted average cost of capital of like businesses that range between 9% and 13% per annum for the Bus Operations CGU and between 7% and 11% per annum for the Aftermarket Operations CGUs. Cash flows beyond this period are extrapolated using a steady estimated growth rate based on the long-term average annual growth rate of 3% for each industry in which the CGUs operate.

Management has determined planned gross margins based on a projected production schedule, past performance and expectations of market development. The discount rates used reflect specific risk relating to the relevant operating segments.

Impairment may result if the following occur:

- the cash flow projections are lower by 14% annually,
- the average annual growth rate is decreased by more than 3.0%, or
- the discount rate is higher by at least 2.5%.

Based upon historical operating results, management's forecasts and previous business plans, the NABI Parts trade name had been assigned an indefinite life. However, based on management's decision to phase out the NABI Bus models, it was determined that the useful life assessment should be changed from indefinite to finite life. This change is accounted for as a change in an accounting estimate in accordance with IAS 8. The NABI Parts trade name has a carrying value of $3,300 which will be amortized over the estimated useful life of 12 years.

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

### 6. DEFERRED TAXES AND INCOME TAX EXPENSE

| | **September 28, 2014** | December 29, 2013 |
|---|---|---|
| Deferred tax assets: | | |
| Deferred tax asset to be recovered after more than 12 months | $ 43,641 | $ 43,422 |
| Deferred tax asset to be recovered within 12 months | 18,274 | 15,476 |
| | 61,915 | 58,898 |
| Deferred tax liabilities: | | |
| Deferred tax liability to be reversed after more than 12 months | (107,305) | (112,531) |
| Deferred tax liability to be reversed within 12 months | (6,537) | (5,893) |
| | (113,842) | (118,424) |
| | $ (51,927) | $ (59,526) |

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 28, 2014** | December 29, 2013 |
|---|---|---|
| As presented on statements of financial position: | | |
| Deferred tax assets | $ 58,584 | $ 55,290 |
| Deferred tax liabilities | (110,511) | (114,816) |
| | $ (51,927) | $ (59,526) |

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

| | **13-Weeks Ended September 28, 2014** | 13-Weeks Ended September 29, 2013 | **39-Weeks Ended September 28, 2014** | 39-Weeks Ended September 29, 2013 |
|---|---|---|---|---|
| Beginning of period | $ (55,272) | $ (64,288) | $ (59,526) | $ (72,912) |
| Exchange differences | (1,335) | 553 | (1,256) | (798) |
| Tax recorded through net earnings | 4,250 | 1,152 | 8,618 | 10,881 |
| Tax recorded through other comprehensive loss | 526 | — | 526 | — |
| Benefit of loss carry forward and share issuance costs recognized against income taxes payable | (96) | (108) | (289) | (422) |
| Tax recorded through equity | — | — | — | 560 |
| End of period | $ (51,927) | $ (62,691) | $ (51,927) | $ (62,691) |

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 29, 2013** | $ (214) | $ (116,540) | $ (1,670) | $ (118,424) |
| Tax reversed (charged) through net earnings | 122 | 4,474 | (14) | 4,582 |
| **September 28, 2014** | $ (92) | $ (112,066) | $ (1,684) | $ (113,842) |

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

**6. DEFERRED TAXES AND INCOME TAX EXPENSE (Continued)**

| **Deferred tax assets** | Provisions | Property, Plant and Equipment | Pension | Deferred Financing Costs and Interest | Other | **Total** |
|---|---|---|---|---|---|---|
| **December 29, 2013** | $ 10,748 | $ 10,688 | $ 86 | $ 19,705 | $ 17,671 | $ 58,898 |
| Tax recovered (charged) through net earnings | 9,190 | 241 | (393) | (11,071) | 6,069 | 4,036 |
| Tax recovered through other comprehensive loss | — | — | 526 | — | — | 526 |
| Benefit of loss carry forward and share issuance costs recognized against income taxes payable | — | — | — | (289) | — | (289) |
| Exchange differences | (235) | (234) | (1) | (432) | (354) | (1,256) |
| **September 28, 2014** | $ 19,703 | $ 10,695 | $ 218 | $ 7,913 | $ 23,386 | $ 61,915 |

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

| | **13-Weeks Ended September 28, 2014** | 13-Weeks Ended September 29, 2013 | **39-Weeks Ended September 28, 2014** | 39-Weeks Ended September 29, 2013 |
|---|---|---|---|---|
| Earnings before income tax expense | $ 10,084 | $ 12,023 | $ 25,172 | $ 15,664 |
| Tax calculated using a 35% U.S. tax rate | 3,529 | 4,209 | 8,810 | 5,483 |
| Tax effect of: | | | | |
| Withholding and other taxes | 256 | 240 | 719 | 487 |
| Non-deductible expenses | (343) | (1,080) | (902) | (1,027) |
| Revision of tax estimates | 857 | (91) | 870 | 607 |
| Rate differential on income taxed at other than U.S. statutory rate | (451) | (542) | (1,119) | (1,123) |
| Foreign exchange impact | (3,621) | 1,020 | (2,536) | (1,581) |
| State taxes | (370) | 222 | 2 | (259) |
| Other | (17) | 213 | 37 | 48 |
| **Income tax expense (recovered) for the period** | $ (160) | $ 4,191 | $ 5,881 | $ 2,635 |

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

## 7. LONG-TERM DEBT

| | Final Maturity | | Face Value | | Unamortized Transaction Costs | | **Net Book Value September 28, 2014** | | Net Book Value December 29, 2013 |
|---|---|---|---|---|---|---|---|---|---|
| Term Credit Facility | April 2017 | $ | 142,000 | $ | 1,381 | $ | 140,619 | $ | 140,241 |
| Revolving Credit Facility (“Revolver”) | April 2017 | | 45,000 | | — | | 45,000 | | 35,000 |
| | | | 187,000 | | 1,381 | | 185,619 | | 175,241 |
| Less: current portion of long-term debt | | | 45,000 | | — | | 45,000 | | 35,000 |
| | | $ | 142,000 | $ | 1,381 | $ | 140,619 | $ | 140,241 |

The Company’s fourth amended and restated credit agreement (the “Credit Facility”) has a total borrowing limit of $257.0 million. The borrowing limit of the Revolver is $115.0 million to support working capital fluctuations. The Revolver includes a $55.0 million letter of credit sub-facility, of which $19.9 million of outstanding letters of credit were drawn at September 28, 2014. The borrowing limit of the term facility (the “Term Credit Facility”) is $142.0 million. The Credit Facility also includes 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.

## 8. 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 outstanding 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.

**8. CONVERTIBLE DEBENTURES (Continued)**

On the date of issuance, the gross proceeds in the amount of $65,000 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 $65,000 less all conversions, at Maturity Date at an effective interest rate over the five-year term of the Debentures.

A principal amount of $257 of Debentures were converted during the 39-week period ended September 28, 2014 (including $220 in the 13-week period ended September 28, 2014 ("2014 Q3")), resulting in a total principal amount of $64,743 Debentures outstanding at September 28, 2014.

| | Debenture liability component | Equity component of Debenture | **Net Book Value September 28, 2014** | Net Book Value December 29, 2013 |
|---|---|---|---|---|
| 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 |
| Deferred taxes | — | (1,421) | (1,421) | (1,421) |
| Accretion in carrying value of debenture liability | 3,649 | — | 3,649 | 2,373 |
| Conversion of Debentures to Shares | (234) | (20) | (254) | — |
| Net book value | $ 59,364 | $ 3,821 | $ 63,185 | $ 62,163 |

**9. SHARE CAPITAL**

| Authorized | | | |
|---|---|---|---|
| Unlimited | Shares | | |
| Issued | | **September 28, 2014** | December 29, 2013 |
| 55,495,104 | Shares (December 29, 2013: 55,466,904) | $ 589,488 | $ 589,208 |

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

| Shares | Number (000s) | Net Book Value |
|---|---|---|
| **Balance - December 29, 2013** | 55,467 | $ 589,208 |
| Stock options exercised | 2 | 26 |
| Conversion of Debentures to Shares | 26 | 254 |
| **Balance - September 28, 2014** | 55,495 | $ 589,488 |

The dividends declared during 2014 Q3 and the 13-weeks ended September 29, 2013 ("2013 Q3") were $7,398 ($0.1333 per Share) and $7,832 ($0.1412 per Share) respectively. Dividends of $2,426 ($0.0437 per Share) were proposed or declared after September 28, 2014 but prior to the Statements being authorized for issue. The Statements do not reflect this dividend payable.

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

### 10. EARNINGS PER SHARE

| | **13-Weeks Ended September 28, 2014** | 13-Weeks Ended September 29, 2013 | **39-Weeks Ended September 28, 2014** | 39-Weeks Ended September 29, 2013 |
|---|---|---|---|---|
| Net earnings attributable to equity holders | $ 10,245 | $ 7,832 | $ 19,292 | $ 13,029 |
| Weighted average number of Shares in issue | 55,483,741 | 55,466,904 | 55,473,811 | 50,749,954 |
| Net incremental shares from assumed conversion of stock options | 230,165 | 45,989 | 147,938 | 20,009 |
| Weighted average number of Shares for diluted earnings per Share | 55,713,906 | 55,512,893 | 55,621,749 | 50,769,963 |
| **Net earnings per Share (basic)** | 0.1847 | 0.1412 | 0.3478 | 0.2567 |
| **Net earnings per Share (diluted)** | $ 0.1839 | $ 0.1410 | $ 0.3469 | $ 0.2566 |

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.

Diluted earnings per Share is calculated using the same method as basic earnings per Share except that the average number of 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 through the exercise of stock options, the exercise of the Conversion Option or the Debentures being repaid with Shares at Maturity Date at 95% of market price. Currently, the 6,474,300 Shares issuable pursuant to the conversion of the Debentures are considered anti-dilutive, therefore both the convertible debenture Shares and the related interest are disregarded in calculating diluted earnings per Share.

### 11. SUPPLEMENTAL CASH FLOW INFORMATION

**Changes in non-cash working capital items**

| Cash inflow (outflow) | **13-Weeks Ended September 28, 2014** | 13-Weeks Ended September 29, 2013 | **39-Weeks Ended September 28, 2014** | 39-Weeks Ended September 29, 2013 |
|---|---|---|---|---|
| Accounts receivable | $ (17,814) | $ 15,183 | $ 66,194 | $ 5,790 |
| Income taxes recoverable | (189) | (195) | (3,423) | (1,163) |
| Inventories | (20,928) | (24,962) | (84,034) | (514) |
| Prepaid expenses and deposits | 1,140 | (384) | 3,101 | (4,217) |
| Accounts payable and accrued liabilities | 22,587 | (12,411) | 13,612 | 6,818 |
| Income taxes payable | — | — | (504) | (6,756) |
| Deferred revenue | (10,989) | 19,768 | (32,773) | 12,567 |
| Provision for warranty costs | 3,660 | 883 | 2,614 | 970 |
| Other | 737 | — | 2,436 | — |
| | $ (21,796) | $ (2,118) | $ (32,777) | $ 13,495 |

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

## 12. 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 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 reserved for issuance under the Option Plan. The Options become vested as to one-quarter on the first grant date anniversary and an additional one-quarter on the second, third and fourth anniversary of such date.

| Option series | Number | Vested | Exercised | Unvested | Expiry date | Exercise price | Fair Value at grant date |
|---|---|---|---|---|---|---|---|
| Granted on March 26, 2013 | 490,356 | 120,090 | 2,500 | 367,766 | March 26, 2021 | C$10.20 | C$1.55 |
| Granted on December 30, 2013 | 612,050 | — | — | 612,050 | December 30, 2021 | C$10.57 | C$1.44 |
| | 1,102,406 | 120,090 | 2,500 | 979,816 | | C$10.41 | |

The following reconciles the stock options outstanding:

| | 39-Weeks ended September 28, 2014 | | 39-Weeks ended September 29, 2013 | |
|---|---|---|---|---|
| | Number | Weighted average exercise price | Number | Weighted average exercise price |
| Balance at beginning of period | 490,356 | C$10.20 | — | — |
| Granted during the period | 612,050 | C$10.57 | 490,356 | C$10.20 |
| Exercised during the period | (2,500) | C$10.20 | — | — |
| Balance at end of period | 1,099,906 | C$10.41 | 490,356 | C$10.20 |

On March 28, 2014, 2,500 stock options were exercised at a price of C$10.20. The Share price on the exercise date was C$11.21.

## 13. 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 |
| Long-term debt | Other Liabilities |
| Derivative financial instruments | 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 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.

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

**13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

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

The following table presents the carrying amounts and fair values of financial liabilities, including their levels in the fair value hierarchy. The table distinguishes between those financial instruments recorded at fair value and those recorded at amortized cost. The table also excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

| | September 28, 2014 | | |
|---|---|---|---|
| | Fair value level | Carrying amount | Fair value |
| **Financial assets recorded at fair value** | | | |
| Derivative financial instrument assets | | | |
| Foreign exchange forward contracts | Level 2 | $ 107 | $ 107 |
| **Financial liabilities recorded at fair value** | | | |
| Derivative financial instrument liabilities | | | |
| Interest rate swap | Level 2 | $ 1,786 | $ 1,786 |
| **Financial liabilities recorded at amortized cost** | | | |
| Debentures (including equity conversion option) | Level 2 | $ 63,185 | $ 76,209 |

**(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 total comprehensive income consistent with the underlying nature and purpose of the derivative instruments.

In connection with the Credit Facility, the Company has an interest rate swap designed to hedge floating rate exposure for the term of the Credit Facility on $142,000 of drawn term loan. The interest rate swap fixes the interest rate at 1.46% plus the applicable interest margin until April 2017. The fair value of the interest rate swap liability at September 28, 2014 was $1,786 (December 29, 2013: $2,508) and the change in fair value has been recorded as finance costs for the reported period. The related liability has been recorded on the 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 28, 2014, the Company had a cash balance of $8,661 (December 29, 2013: $11,896) and the $115,000 Revolver. As at September 28, 2014, there was $45,000 of direct borrowings (December 29, 2013: $35,000) and $19,868 of outstanding letters of credit (December 29, 2013: $22,681) 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.

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

**13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

**(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 total comprehensive income 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 total comprehensive income.

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

| | | **September 28, 2014** | | December 29, 2013 |
|---|---|---|---|---|
| Current, including holdbacks | $ | 156,118 | $ | 213,101 |
| Past due amounts but not impaired | | | | |
| 1 – 60 days | | 8,037 | | 16,370 |
| Greater than 60 days | | 289 | | 1,270 |
| Less: Allowance for doubtful accounts | | (323) | | (426) |
| Total accounts receivables, net | $ | 164,121 | $ | 230,315 |

As at September 28, 2014, there was no amount that would otherwise be past due or impaired whose terms have been renegotiated.

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 28, 2014, 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 28, 2014** | December 29, 2013 |
|---|---|---|
| Total Leverage Ratio (must be less than 3.25) | 1.76 | 1.67 |
| Interest Coverage Ratio (must be greater than 3.00) | 8.68 | 9.21 |

Compliance with financial covenants is reported quarterly to the board of directors. Other than the requirements imposed by borrowing agreements, the Company is not subject to any externally imposed capital requirements. Capital management objectives are reviewed on an annual basis. The capital management objectives are unchanged from the last reporting period.

**14. SEGMENT INFORMATION**

The Company has two 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 derives its revenue from the manufacture of transit buses for public transportation. The Aftermarket Operations segment derives its revenue from the provision of service parts and support related to transit buses and sale of used 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 unrealized foreign exchange gains or losses and finance costs. Corporate overhead costs are allocated fully to the Bus Operations segment.

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

**14. SEGMENT INFORMATION (Continued)**

The Bus Operations segment has recorded vendor rebates of $2,093 which have been recognized into earnings during 2014 Q3 (2013 Q3: $1,341), 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, 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 28, 2014** | | | |
|---|---|---|---|---|
| | **Bus Operations** | **Aftermarket Operations** | **Unallocated** | **Total** |
| Revenue from external customers | $ 278,713 | $ 82,049 | $ — | $ 360,762 |
| Operating costs and expenses | 277,957 | 69,907 | — | 347,864 |
| Earnings (loss) before income tax expense | 756 | 12,142 | (2,813) | 10,085 |
| Total assets | 550,761 | 213,786 | 364,574 | 1,129,121 |
| Addition of capital expenditures | 2,474 | 58 | — | 2,532 |
| Addition of goodwill and intangibles | 5 | 53 | — | 58 |
| Goodwill | 149,950 | 62,705 | — | 212,655 |

| | 13-Weeks Ended September 29, 2013 | | | |
|---|---|---|---|---|
| | **Bus Operations** | **Aftermarket Operations** | **Unallocated** | **Total** |
| Revenue from external customers | $ 248,178 | $ 58,331 | $ — | $ 306,509 |
| Operating costs and expenses | 233,784 | 50,630 | — | 284,414 |
| 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 |
| Addition of capital expenditures | 3,362 | 222 | — | 3,584 |
| Addition of goodwill and intangibles | 999 | 480 | — | 1,479 |
| Goodwill | 150,337 | 62,678 | — | 213,015 |

| | **39-Weeks Ended September 28, 2014** | | | |
|---|---|---|---|---|
| | **Bus Operations** | **Aftermarket Operations** | **Unallocated** | **Total** |
| Revenue from external customers | $ 795,433 | $ 235,678 | $ – | $ 1,031,111 |
| Operating costs and expenses | 795,063 | 201,003 | – | 996,066 |
| Earnings (loss) before income tax expense | 370 | 34,675 | (9,872) | 25,173 |
| Total assets | 550,761 | 213,786 | 364,574 | 1,129,121 |
| Addition of capital expenditures | 7,699 | 157 | – | 7,856 |
| Addition of goodwill and intangibles | 41 | 130 | – | 171 |
| Goodwill | 149,950 | 62,705 | – | 212,655 |

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

**14. SEGMENT INFORMATION (Continued)**

| | 39-Weeks Ended September 29, 2013 | | | |
|---|---|---|---|---|
| | **Bus Operations** | **Aftermarket Operations** | **Unallocated** | **Total** |
| Revenue from external customers | $ 671,203 | $ 147,017 | $ — | $ 818,220 |
| Operating costs and expenses | 639,847 | 130,666 | — | 770,513 |
| 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 |
| Addition of capital expenditures | 5,335 | 1,067 | — | 6,402 |
| Addition of goodwill and intangibles | 8,919 | 50,369 | — | 59,288 |
| Goodwill | 150,337 | 62,678 | — | 213,015 |

**15. 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 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 28, 2014 range from October 2014 to October 2016.

At September 28, 2014, outstanding surety bonds guaranteed by the Company totaled $119,678 (December 29, 2013: $147,202). 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 28, 2014, letters of credit totaling $19,868 (December 29, 2013: $22,681) remain outstanding under the letter of credit facility.

As at September 28, 2014, 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.

**16. PROVISION FOR WARRANTY COSTS**

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 provides certain 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 customer contract. The movement in the provision for warranty costs during the period is as follows:

| | **Total** |
|---|---|
| December 29, 2013 | $ 26,102 |
| Additions | 17,115 |
| Amounts used | (13,371) |
| Unwinding of discount and effect of changes in the discount rate | (204) |
| Exchange differences | (926) |
| **September 28, 2014** | $ 28,716 |