March 18, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS AND 52-WEEKS ENDED DECEMBER 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 consolidated financial statements (including notes) (the "Financial Statements") for the 52-week period ended December 28, 2014 ("Fiscal 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 December 28, 2014, 55,505,604 Shares and approximately $64.6 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 transit bus. One articulated bus represents two equivalent units. An articulated bus is an extra long bus (approximately 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 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 assumes 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, realized ITCs 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, electric trolley, fuel cell, diesel-electric hybrid and now battery-electric. All buses are supported by an industry-leading comprehensive warranty and support program, and service network. New Flyer also operates 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 employs over 3,300 team members with manufacturing, fabrication, parts distribution and service centers in both Canada and the United States.

Industry Overview

Public transit infrastructure is considered an “essential service” and is a key priority of governments and public authorities due to the significant population base that is highly dependent on public transportation and the importance of reducing inner city and suburban traffic congestion.

Funding and the Economy

United States

The United States federal government has provided funding to assist with the purchase of new heavy-duty transit buses since 1964. Purchases are now largely funded through the Federal Transit Administration ("FTA") funding allocations derived from gasoline taxes. Under these programs, municipal and local transit authorities in the United States receive up to 80% of the funding for new bus purchases from the federal government for (i) the replacement of buses that have operated for the FTA minimum service life, and (ii) new buses to support fleet growth based on population and ridership trends. In order to receive federal funding for new bus purchases, a minimum 20% contribution commitment from local transit authorities must be in place and the new bus purchase must comply with “Buy-America” legislation.

Federal funding for public transit in the United States is provided under surface transportation legislation covering highway, rail and marine transport. On October 1, 2012, a two-year transportation authorization took effect, entitled “Moving Ahead for Progress in the 21st Century” (“MAP-21”). The law authorized $10.6 billion of spending in fiscal year 2013 and $10.7 billion in fiscal year 2014 for public transportation. Primary changes with this funding legislation include the establishment a new needs-based formula program and new asset management requirements. In addition, it established performance-based planning requirements for transit agencies that align federal funding with key goals and tracks progress of each grantee towards these goals.

On March 4, 2014, the U.S. Budget proposal for 2015 fiscal year was released. The centerpiece of the transportation budget was a four-year, $302 billion surface transportation authorization proposal (known as the “GROW AMERICA Act”) that provides $72.3 billion for public transportation over that period and $17.6 billion in 2015 fiscal year. The $17.6 billion figure includes almost $14.0 billion for transit formula grants, and $2.5 billion for capital investment grants. The GROW AMERICA Act was introduced in the House of Representatives on June 11, 2014. The bill was referred to a number of House 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. On December 16, 2014, U.S. President Obama signed the combined Omnibus Appropriations and Continuing Resolution that will fund the U.S. federal government through the end of fiscal year 2015. The resolution extends transit funding to September 30, 2015, and results in full-year funding levels under MAP-21 of $10.7 billion, which is $167 million more than the prior year.

On February 3, 2015, President Obama released his proposed budget for the 2016 fiscal year, including a revision to the GROW AMERICA Act, which extends funding through fiscal year 2021 and increases the overall authorization level to $478 billion. Other highlights of the revised bill include a 76% increase to transit formula grants and a discretionary grant program dedicated to bus rapid transit (“BRT”) spending. The proposal also calls for changes to the Buy America requirements that would increase the U.S. content requirements for transit buses from the current 60 percent U.S. content to 70 percent U.S. content in 2016. The U.S. content requirement would then increase to 80 percent in 2017, 90 percent in 2018 and 100 percent in 2019. Currently it is not known whether the revised GROW AMERICA Act will be passed as there is considerable amount of political debate which is expected to take place in the U.S. Congress. If a reauthorization bill is not passed, management expects that an extension of existing legislation would likely be passed, however there is no assurance that this will happen.

Operating funds for U.S. transit agencies have been stressed since the global financial crisis, resulting in many transit agencies reducing service, increasing fares, and laying off employees. Others are attempting to off-set budget shortfalls with new revenue streams such as the sale of naming rights for stations and routes, advertising on transit system websites and advertising on buses. While state and local budgets remain challenged, there have been some positive signs. According to the Nelson Rockefeller Institute, preliminary data indicates state tax collections increased in the third quarter of 2014 by 4% over the prior year. State tax collections include personal income tax and sales tax, both of which have increased for 18 of the last 19 quarters, and corporate income taxes have increased for the past five quarters. Overall state tax revenues have recovered to pre-recession levels. Although these budgets are driven by tax revenue, there is a lag before any improved economic activity translates into new bus orders.

These state, county, and municipal taxes also comprise the principal source of the “local match” funding required for agencies to qualify for the FTA capital grants discussed previously. In most cases, the FTA provides 80% of the capital cost of buses, and the local municipality must provide the remaining 20%. Historically, municipal budgets have been under extreme pressure which limited the ability of many transit agencies to provide the local match funding.

The American Public Transportation Association (“APTA”) reports that the average fleet age in the U.S. has decreased from 8.0 years in 2011 to 7.8 years in 2013. As well, management estimates there are approximately 22,000 transit buses in active revenue service that are older than 12 years. Management believes that other than fleet age statistics, there is no high-level indicator of the health of funding for transit bus purchases.

Canada

Historically, purchases of new transit buses in Canada have been funded primarily by provincial and municipal governments. Unlike the U.S., in Canada there is no central source of funding for bus procurements. Instead, funding of bus purchases comes from a patchwork of provincial funding, municipal funding, fare box revenue, various federal programs and other smaller sources. Across Canada the funding approach varies widely from province to province and even from city to city within a single province.

Recognizing, however, the infrastructure deficit in Canadian cities and the role transit can play to fight climate change, reduce congestion and increase quality of life, since 2003 successive federal governments have funded transit capital projects. Some cost share funding for public transit projects and new bus purchases has been provided since 2003 by federal programs such as the Canadian Strategic Infrastructure Fund and the Infrastructure Canada Program. The Canadian federal government announced in the 2008 budget that the federal Gas Tax Fund became permanent. This fund provided approximately C$2.0 billion per year from 2009 through 2014 to help municipalities improve their infrastructure. In February 2014, the Canadian federal government announced the C$53 billion New Building Canada Plan for provincial, territorial and municipal infrastructure which also continues the approximate C$2.0 billion annual federal Gas Tax Fund until 2019. While the overall federal contribution to infrastructure projects has increased, the eligibility categories have also become broader. Management does not believe this new federal program will significantly increase purchases of buses by transit agencies in Canada. As well, some Canadian provinces such as British Columbia have motor fuel taxes whereby a potion is dedicated to finance transportation projects for its related transit authorities.

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

The Canadian Urban Transportation Association has reported a decrease in average fleet age from 10.8 years in 2002 to 6.9 years in 2013. Management believes that other than fleet age statistics, there is no high-level indicator of the health of funding for the industry.

Recent Ridership Trends

The latest data from the APTA indicates overall stable ridership during the fourth quarter of 2014. The report indicated an increase of 1.1% in all modes of U.S. transit ridership during the fourth quarter of 2014 compared with the previous year, with a decrease in bus ridership of 1.0%. The same APTA report indicates Canadian ridership increased by 1.3% in all modes of transit ridership during the fourth quarter of 2014 as compared to the previous year; however, specific data on Canadian 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 Q4	909	5,329	6,238	12,354	18,592
2014 Q1	3,626	2,045	5,671	15,567	21,238
2014 Q2	2,772	1,926	4,698	15,030	19,728
2014 Q3	2,864	3,419	6,283	15,490	21,773
2014 Q4	**3,335**	**3,394**	**6,729**	**14,727**(2)	**21,456**(2)

(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.

(2) In order to more accurately reflect current information and estimates, management has revised its previously disclosed 2014 Q4 forecast of future industry procurements over the next 5 years, by decreasing the bid universe by 1,612 EUs from the original forecast that was described in the Company’s press release issued on January 13, 2015.

The total number of Active EUs at the end of 13-weeks ended December 28, 2014 (“2014 Q4”) increased by 7% compared to the 13-weeks ended September 28, 2014 (“2014 Q3”). This increase is consistent with management's expectations of forecasted bid activity.

Management anticipates 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 Year in Review

Management was able to complete a number of strategic transactions critical to achieving the objective of continued long-term growth and diversification.

Accomplishments

- Completed distribution agreements with ABC Companies, Inc. in the U.S. and A. Girardin Inc. in Canada to distribute Xcelsior® and MiDi® buses to private operators and select public transit authorities.
- Delivered first MiDi® to customer in May 2014.
- Successfully delivered six battery-electric, zero-emission heavy-duty Xcelsior® buses.
- Completed 70% of the Chicago Transit Authority (“CTA”) mid-life overhaul program (involving over 1,000 buses).
- Created plan to rationalize NABI Bus’ bus models in the Anniston, Alabama facility to the New Flyer Xcelsior® platform.
- Improved the Canadian Manufacturers and Exporters’ LEAN assessment score for 6th consecutive year to 4.1 out of 5.

Bus order activity during 2014 Q4 and Fiscal 2014

New orders (firm and options) for 2014 Q4 totaled 1,325 EUs. The new firm and option orders awarded to New Flyer for Fiscal 2014 were 2,469 EUs compared to 5,279 EUs during the 52-week period ended December 29, 2013 ("Fiscal 2013"). Also, New Flyer was successful at converting 163 EUs of options during 2014 Q4, which contributed to the 1,149 EUs of options converted in Fiscal 2014 as compared to 601 EUs during Fiscal 2013.

	New Orders in Quarter (Firm and Option EUs)	LTM New Orders (Firm and Option EUs)	Option Conversions in Quarter (EUs)	LTM Option Conversions (EUs)
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
2014 Q4	**1,325**	**2,469**	**163**	**1,149**

In 2014 Q4, 139 option EUs expired. Approximately 40% of the options as at January 1, 2014 that were scheduled to expire in 2014 were successfully converted to firm orders, compared to a conversion rate of 33% in 2013. This year-over-year improvement in option conversion excludes the significant deferred customer order which was removed from the backlog in 2013 Q4.

At the end of 2014 Q4, new firm and option orders of 278 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.

During 2014 Q4, New Flyer also executed contracts with two U.S. states, which added New Flyer buses to their respective purchasing schedules of eligible transit vehicles. These "State" contracts do not have specific firm or option quantities, and therefore are not added to backlog, but as options are exercised under these agreements by eligible purchasers, they will be added as new firm orders.

At the end of 2014 Q4, New Flyer's total backlog was 6,745 EUs (valued at $3.39 billion) compared to 6,239 EUs (valued at $3.07 billion) at the end of 2014 Q3. The Company's backlog includes MiDi®.

In 2013, the FTA issued a 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 has 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 73% of the total backlog.

The Company delivered 2,437 EUs in Fiscal 2014, which is an increase of 11.2% over deliveries in Fiscal 2013.

New Flyer's Fiscal 2014 Book-to-Bill ratio (defined as new firm and option orders divided by deliveries) was 101% as compared to 241% during Fiscal 2013. The Company's LTM Book-to-Bill ratio has exceeded 100% for seven of the last eight quarters.

Aftermarket order activity during 2014 Q4 and Fiscal 2014

Gross parts orders received by New Flyer's aftermarket business during 2014 Q4 increased 24.1% compared to 2013 Q4. Parts shipments in 2014 Q4 also increased 23.6% over 13-week period ended December 29, 2013 ("2013 Q4").

Quarter-over-quarter gross parts orders grew 2.8% over 2014 Q3, while parts shipments were up 2.3% over 2014 Q3.

Orders for the New Flyer prime contract portion of the CTA mid-life upgrade program continue to be received as the program enters its final year, with approximately 70% of the buses having been completed at the end of 2014. The revenue generated from CTA mid-life upgrade program represented 14.8% of the total aftermarket revenue during Fiscal 2014. This stream of revenue is expected to continue until June 2015.

Fiscal 2014 and Fourth Quarter Financial Results

The Company generated consolidated revenue of $420.0 million for 2014 Q4, an increase of 10.2% compared to consolidated revenue for 2013 Q4 of $381.2 million, and consolidated revenue for Fiscal 2014 of $1.45 billion, an increase of 21.0% from consolidated revenue for Fiscal 2013 of $1.20 billion. The 2014 Q4 revenue growth is primarily a result of increased bus production and aftermarket volumes, whereas Fiscal 2014's growth was also a result of business acquisitions in Fiscal 2013 and the CTA mid-life overhaul program.

Revenue from bus manufacturing operations for 2014 Q4 was $336.6 million, an increase of 7.5% from $313.2 million in 2013 Q4. The increase in 2014 Q4 revenue primarily resulted from a 7.1% increase in total bus deliveries of 680 EUs in 2014 Q4 compared to 2013 Q4 deliveries of 635 EUs and a 0.3% increase in average selling price per EU in 2014 Q4 of $495.0 thousand compared to $493.3 thousand in 2013 Q4. Similarly, bus revenue for Fiscal 2014 of $1.13 billion increased 15.0% from $984.4 million for Fiscal 2013. Bus deliveries of 2,437 EUs in Fiscal 2014 increased 11.2% compared to 2,191 EUs in Fiscal 2013 and the average selling price per EU in Fiscal 2014 of $464.5 thousand increased 3.4% from $449.3 thousand in Fiscal 2013. The increase in average selling price is the result of changes in the product sales mix, which included fewer articulated buses during Fiscal 2014. The average selling price can be volatile when comparing fiscal quarters as a result of sales mix. The increased deliveries during Fiscal 2014 were primarily as a result of including NABI Bus, LLC. ("NABI Bus") bus deliveries effective June 21, 2013. Additionally, the total bus inventory for the Company at December 28, 2014 was 358 EUs, which is a decrease of 41 EUs from the previous quarter, attributed primarily to the recovery of deliveries on a contract where the customer had delayed inspection and acceptance. All but two of the buses under this contract were delivered by December 28, 2014.

Revenue from aftermarket operations in 2014 Q4 was $83.4 million, an increase of 22.6% compared to $68.0 million in 2013 Q4 resulting from an improved aftermarket parts market. Revenue from aftermarket operations for Fiscal 2014 was $319.0 million, an increase of 48.4% compared to $215.0 million in Fiscal 2013. The increase in aftermarket operations revenue during Fiscal 2014 is primarily a result of increased volumes as a result of incremental revenue from the CTA mid-life overhaul program, the Orion parts business and NABI Parts, LLC ("NABI Parts"). The revenue from aftermarket operations (excluding the CTA mid-life program) for Fiscal 2014 was $271.8 million compared to $208.9 million in Fiscal 2013. The CTA overhaul program stream of revenue is expected to continue until June 2015.

Consolidated Adjusted EBITDA for 2014 Q4 totaled $35.0 million (8.3% of revenue) compared to $36.8 million (9.7% of revenue) in 2013 Q4, which represents a decrease of 4.9%. In comparing the respective periods, this decrease in consolidated Adjusted EBITDA is primarily due to anticipated lower bus margins which were partially offset by the incremental aftermarket operations volume and increase in ITCs realized. Fiscal 2014 consolidated Adjusted EBITDA of $107.4 million (7.4% of revenue) increased by 13.4% compared to Fiscal 2013 consolidated Adjusted EBITDA of $94.7 million (7.9% of revenue).

2014 Q4 bus manufacturing operations Adjusted EBITDA of $23.2 million (6.9% of revenue) decreased 15.1% compared with 2013 Q4 bus manufacturing operations Adjusted EBITDA of $27.3 million (8.7% of revenue). The decrease in Adjusted EBITDA was expected as management had previously provided guidance about lower than average margins. 2014 Q4 Adjusted EBITDA also decreased as a result of an accounting provision made for the expected payment of $2.4 million for the restricted share units ("RSUs") and the performance share units (PSUs") as the performance targets relating to these units are expected to be achieved. Bus manufacturing operations Adjusted EBITDA of $57.4 million (5.1% of revenue) for Fiscal 2014 decreased 9.9% compared to $63.6 million (6.5% of revenue) for Fiscal 2013. Profit margins have decreased when comparing the two periods as management had anticipated and previously provided guidance regarding lower bus margins in Fiscal 2014. Management has continued its efforts to recover margins during Fiscal 2014 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.

During Fiscal 2014 the Company recognized $11.7 million of ITCs as compared to $8.1 million in Fiscal 2013. The Company recognizes ITCs in bus manufacturing operations Adjusted EBITDA only during the period in which they are applied against income taxes payable. At December 28, 2014 only $0.2 million of ITCs remain unapplied. The related tax credit program has ceased and not continued.

2014 Q4 aftermarket operations Adjusted EBITDA of $11.9 million (14.2% of revenue) increased 24.6% compared to $9.5 million (14.0% of revenue) in 2013 Q4. 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.

Aftermarket operations Adjusted EBITDA for Fiscal 2014 of $50.0 million (15.7% of revenue) represents an increase of 61.1% over Fiscal 2013 aftermarket operations Adjusted EBITDA of $31.0 million (14.4% of revenue). Additional Adjusted EBITDA was generated by the CTA mid-life overhaul program and a full year of earnings from the acquisition of the NABI Parts and the Orion parts businesses when comparing the two periods.

The Company reported net earnings of $7.4 million in 2014 Q4, a decrease of 45.9% compared to net earnings of $13.7 million in 2013 Q4. The Company's net earnings per Share in 2014 Q4 were $0.13, a decrease from net earnings per Share of $0.25 generated during 2013 Q4. The decreased net earnings in 2014 Q4 is primarily as a result of the increase in cost of sales which includes a $2.7 million increase in amortization, as a consequence of the Company's plan to rationalize to a common Xcelsior® platform, 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 has been accelerated accordingly.

Fiscal 2014 net earnings of $26.7 million compare to Fiscal 2013 net earnings of $26.8 million. Fiscal 2014 net earnings were negatively impacted by the $4.8 million impairment loss and the $7.8 million increase in amortization when compared to Fiscal 2013 as a result of the decision to rationalize to a common Xcelsior® platform. Net earnings per Share in Fiscal 2014 were $0.48 compared to $0.52 generated during Fiscal 2013. Net earnings per Share decreased in Fiscal 2014 primarily as a result of having more Shares outstanding after issuing 11.1 million Shares throughout Fiscal 2013.

The Company generated Free Cash Flow of C$21.1 million during 2014 Q4 as compared to C$15.7 million in 2013 Q4 primarily as a result of decreased cash capital expenditures and a higher U.S. exchange rate. The Company declared dividends in 2014 Q4 of C$8.1 million similar to C$8.1 million in 2013 Q4.

The Company generated Free Cash Flow of C$65.5 million during Fiscal 2014 as compared to C$45.1 million in Fiscal 2013. The Company declared dividends in Fiscal 2014 of C$32.5 million as compared to C$30.7 million in Fiscal 2013. The amount of dividends declared increased in Fiscal 2014 primarily as a result of issuing 11.1 million Shares in Fiscal 2013. The Free Cash Flow payout ratio of 49.6% in Fiscal 2014 improved as compared to 68.1% during Fiscal 2013. Management believes that sufficient Free Cash Flow will be generated to maintain the current annual dividend rate of C$0.585 per Share. The Company has paid dividends to shareholders for 113 consecutive months since the Company's initial public offering in August 2005.

The December 28, 2014 liquidity position of $73.2 million (comprised of available cash of $17.5 million and $55.7 million available under the Revolver) increased as compared to a liquidity position of $69.2 million at December 29, 2013. As at December 28, 2014, there were $40.0 million of direct borrowings and $19.3 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.

Market and Business Outlook

Management estimates that heavy-duty bus manufacturers delivered approximately 5,100 EUs in 2014 to Canadian and U.S. transit operators, which is a small increase from the total number of estimated EUs delivered in 2013. This is consistent with the estimated range of deliveries over the last 15 years (from 4,000 EUs to 6,000 EUs).

Management estimates that New Flyer's actual market share of EUs delivered in Canada and the United States for 2014 was approximately 48%, an increase from its estimated market share of 43% for 2013. The increase was primarily as a result of the acquisition of NABI in June 2013 and the introduction of MiDi®.

The Company's annual operating plan for the 52-weeks ended December 27, 2015 ("Fiscal 2015") is focused on executing its plan to phase out production of the NABI bus models from the Anniston, AL facility and transition to the Xcelsior® platform. The transition is proceeding in accordance with management's plans and is targeted to be completed during the second half of 2015. Management expects the transition to allow for improvement in competiveness by leveraging combined bus volume, production, and purchasing for greater efficiencies. Management further 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. The Company believes customers will benefit from the enhancements that result from its focus on a single heavy-duty platform.

During this transition period, management expects to invest approximately $20.0 million in direct operating costs and capital expenditures to complete the transition, utilizing operating cash flow and current credit facilities. As of December 28, 2014, the Company had incurred $3.1 million of costs. Management anticipates these direct operating and capital expenditures will be paid back through captured cost reductions and synergies within approximately two to three years. Currently the annualized cost savings are $11.9 million.

Management believes pricing in certain types of bus competitions has normalized and expects that bus margins realized during Fiscal 2015 will be on average higher than those realized during Fiscal 2014. Management continues to pursue cost and overhead savings as a result of its decision to focus exclusively on the Xcelsior® platform as well as in daily operations through its Operational Excellence initiatives. Management anticipates that the increased bus margins for Fiscal 2015 will mitigate the loss of Adjusted EBITDA derived from the Company's ITCs, which were substantially realized during Fiscal 2014.

With respect to the aftermarket segment, management estimates that New Flyer grew its market share in Fiscal 2014 to an estimated 33% from an estimated 28% in Fiscal 2013. The aftermarket revenue generated from CTA mid-life upgrade program represented 14.8% of the total aftermarket revenue during Fiscal 2014. This stream of revenue is expected to conclude by June 2015. Management forecasts core aftermarket parts revenue growth at approximately 5% during Fiscal 2015. Management is currently engaged in a strategic review of New Flyer's aftermarket business to identify efficiencies through business and system synchronization.

As at the date of this report, the Company has filled approximately 80% of its Fiscal 2015 planned production schedule, which is similar to last year at this time, although Fiscal 2015 has a higher production rate than the previous year. 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 2015 as the Company executes on the rationalization of the NABI Bus product lines to the Xcelsior® platform. Production rates may vary from quarter to quarter due to sales mix and the introduction of the Xcelsior® into the 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 equivalent units and per share figures)

Fiscal Period	Quarter	Revenue	Earnings from Operations[1]	Net earnings	EBITDA [1]	Adjusted EBITDA [1]	Earnings per share
2014	Q4	$ 419,989	$ 15,575	$ 7,427	$ 25,551	$ 35,036	$ 0.13
	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	**$ 1,451,100**	**$ 50,620**	**$ 26,719**	**$ 86,457**	**$ 107,365**	**$ 0.48**
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**

							Inventory comprised of:	
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]	Work in process (equivalent units)[2]	Finished goods (equivalent units)[2] & [3]
2014	Q4	399	—	639	680	358	301	57
	Q3	366	—	654	621	399	309	90
	Q2	306	—	642	582	366	292	74
	Q1	273	—	587	554	306	286	20
	Total	**273**	**—**	**2,522**	**2,437**	**358**	**301**	**57**
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**

COMPARISON OF 2014 AND 2013 ANNUAL AND FOURTH QUARTER RESULTS

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

	13-Weeks Ended December 28, 2014	13-Weeks Ended December 29, 2013	**52-weeks Ended December 28, 2014**	52-Weeks Ended December 29, 2013
Statement of Earnings Data				
Revenue				
Canada	$ 36,057	$ 22,332	$ 161,971	$ 128,945
U.S.	300,576	290,890	970,095	855,480
Bus manufacturing operations	336,633	313,222	1,132,066	984,425
Canada	15,436	16,271	63,572	58,567
U.S.	67,920	51,711	255,462	156,432
Aftermarket operations	83,356	67,982	319,034	214,999
Total revenue	$ 419,989	$ 381,204	$ 1,451,100	$ 1,199,424
Earnings from operations(1)	$ 15,575	$ 23,977	$ 50,620	$ 51,109
Earnings before finance costs and income taxes	15,892	22,191	51,440	48,963
Net earnings	7,427	13,732	26,719	26,761
EBITDA(1)	25,551	31,281	86,457	79,110
Adjusted EBITDA(1)				
Bus manufacturing operations including realized foreign exchange losses/gains	23,177	27,313	57,374	63,649
Aftermarket operations	11,859	9,517	49,991	31,036
Total Adjusted EBITDA(1)	$ 35,036	$ 36,830	$ 107,365	$ 94,685
Other Data (unaudited)				
Canada	90	51	413	317
U.S.	590	584	2,024	1,874
Total deliveries (equivalent units)(2)	680	635	2,437	2,191
Total capital expenditures	$ 3,187	$ 9,156	$ 14,343	$ 16,507
New options awarded	$ 404,386	$ 57,539	$ 647,593	$ 1,765,869
New firm orders awarded	$ 290,609	$ 98,161	$ 546,243	$ 936,894
Exercised options	81,876	104,294	592,166	274,401
Total firm orders	$ 372,485	$ 202,455	$ 1,138,409	$ 1,211,295

(Unaudited, U.S. dollars in thousands)	**December 28, 2014**		December 29, 2013		December 30, 2012	
Selected Statement of Financial Position Data						
Total assets	$ 1,136,115		$ 1,136,402		$ 897,224	
Long-term financial liabilities	329,644		346,233		322,844	
Other Data		Equivalent Units(2)		Equivalent Units(2)		Equivalent Units(2)
Firm orders – USA	$ 1,066,985	1,980	$ 1,031,743	2,088	$ 676,266	1,525
Firm orders – Canada	50,371	122	71,220	188	64,578	147
Total firm orders	1,117,356	2,102	1,102,963	2,276	740,844	1,672
Options – USA	2,121,260	4,257	2,442,771	5,136	1,787,685	4,320
Options – Canada	155,313	386	111,444	266	145,090	333
Total options	2,276,573	4,643	2,554,215	5,402	1,932,775	4,653
Total backlog	$ 3,393,929	6,745	$ 3,657,178	7,678	$ 2,673,619	6,325

Equivalent Units in Backlog	**52 Weeks Ended December 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	1,114	1,355	1,923	3,356	882	738
NABI acquired backlog	—	—	551	608	—	—
Options exercised	1,149	(1,149)	601	(601)	970	(970)
Shipments	(2,437)	—	(2,191)	—	(1,656)	—
Removal of deferred order(4) (5)	—	—	(280)	(1,520)	—	—
Cancelled/expired	—	(965)	—	(1,094)	—	(736)
End of period	2,102	4,643	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:

2015 Q2	506
2015 Q3	172
2015 Q4	268
2015	946
2016	596
2017	560
2018	1,625
2019	916
Total options	4,643

(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 December 28, 2014**	13-Weeks Ended December 29, 2013	**52-weeks Ended December 28, 2014**	52-weeks Ended December 29, 2013
Net earnings	$ 7,427	$ 13,732	$ 26,719	$ 26,761
Addback[1]				
Income taxes	4,968	5,221	10,849	7,856
Finance cost	3,497	3,238	13,872	14,346
Amortization	9,976	7,304	35,837	28,001
Unrealized foreign exchange (gain) loss on non-current monetary items	(317)	1,786	(820)	2,146
EBITDA[2]	25,551	31,281	86,457	79,110
Costs associated with assessing strategic and corporate initiatives[4]	—	575	—	5,989
Impairment loss on equipment and intangible assets[7]	912	—	4,831	—
Product rationalization costs [8]	2,808	—	3,093	—
Realized investment tax credits[5]	5,607	4,873	11,724	8,135
Non-recurring transitional costs relating to business acquisitions[6]	—	—	581	1,152
Stock-based compensation	158	101	679	299
Adjusted EBITDA[2]	$ 35,036	$ 36,830	$ 107,365	$ 94,685

RECONCILIATION OF CASH FLOW TO EBITDA AND ADJUSTED EBITDA

(Unaudited, US dollars in thousands)	**13-Weeks Ended December 28, 2014**	13-Weeks Ended December 29, 2013	**52-weeks Ended December 28, 2014**	52-weeks Ended December 29, 2013
Net cash generated (used) by operating activities	$ 26,850	$ (2,501)	$ 45,823	$ 29,979
Addback[1]				
Changes in non-cash working capital items	2,478	33,463	35,255	22,988
Defined benefit funding	539	2,157	3,529	8,714
Defined benefit expense	(600)	(815)	(2,595)	(2,778)
Interest paid	2,175	1,848	11,621	10,949
Impairment loss on equipment and intangible assets [7]	(912)	—	(4,831)	—
Realized investment tax credits	(6,215)	(5,086)	(13,490)	(9,603)
Stock-based compensation	(158)	(101)	(679)	(299)
Foreign exchange (loss) gain on cash held in foreign currency	(131)	(497)	(154)	192
Income taxes paid [3]	1,525	2,813	11,978	18,968
EBITDA[2]	25,551	31,281	86,457	79,110
Costs associated with assessing strategic and corporate initiatives[4]	—	575	—	5,989
Impairment loss on equipment and intangible assets[7]	912	—	4,831	—
Product rationalization costs [8]	2,808	—	3,093	—
Realized investment tax credits[5]	5,607	4,873	11,724	8,135
Non-recurring transitional costs relating to business acquisitions[6]	—	—	581	1,152
Stock-based compensation	158	101	679	299
Adjusted EBITDA[2]	$ 35,036	$ 36,830	$ 107,365	$ 94,685

(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 Fiscal 2013 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 Fiscal 2014.

(4) Normalized to exclude non-recurring expenses related to the costs of assessing strategic and corporate initiatives, including amounts related to acquiring the Orion parts business and 100% of the voting equity interest in NABI-Optima Holdings Inc. ("NABI").

(5) The Company recognizes ITCs in Adjusted EBITDA only during the period in which they are applied against income taxes payable. During Fiscal 2014 the Company recognized $13,490 of ITCs, however a related contractual liability exists to a customer of $1,766.

(6) Normalized to exclude non-recurring expenses related to the transitional costs related to the 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 the NABI bus models will be phased out in 2015 and an impairment charge on equipment and intangible assets was recorded. As well, during 2014 Q4 the Company recorded an impairment of $0.9 million due to management's fair value assessment of future cash flows related to a product license used in the aftermarket parts operations.

(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 December 28, 2014**		13-Weeks Ended December 29, 2013		**52-weeks Ended December 28, 2014**		52-weeks Ended December 29, 2013
Net cash generated (used) by operating activities	$	26,850	$	(2,501)	$	45,823	$	29,979
Changes in non-cash working capital items(3)		2,478		33,463		35,255		22,988
Interest paid(3)		2,175		1,848		11,621		10,949
Interest expense(3)		(2,975)		(3,136)		(12,418)		(11,606)
Income taxes paid(3)		1,525		2,813		11,978		18,968
Current income tax expense(3,10)		(11,192)		(10,333)		(25,691)		(23,849)
Principal portion of finance lease payments		(633)		(386)		(1,766)		(2,003)
Cash capital expenditures (8)		(1,655)		(8,109)		(8,397)		(13,836)
Non-recurring transitional costs relating to business acquisitions(9)		—		—		581		1,152
Costs associated with assessing strategic and corporate initiatives(7)		—		575		—		5,989
Product rationalization costs (11)		2,808		—		3,093		—
Defined benefit funding(4)		539		2,157		3,529		8,714
Defined benefit expense(4)		(600)		(815)		(2,595)		(2,778)
Realized investment tax credits(10)		(608)		(213)		(1,766)		(1,468)
Foreign exchange (loss) gain on cash held in foreign currency(5)		(131)		(497)		(154)		192
Free Cash Flow (US$)(1)		18,581		14,866		59,093		43,391
U.S. exchange rate(2)		1.1362		1.0560		1.1083		1.0390
Free Cash Flow(1) (C$)		**21,112**		**15,700**		**65,495**		**45,085**
Free Cash Flow per Share (C$)(6)		0.3803		0.2831		1.1804		0.8682
Declared dividends on Shares (C$)		**8,117**		**8,112**		**32,458**		**30,706**
Declared dividend per Share (C$)(6)	$	0.1462	$	0.1462	$	0.5850	$	0.5913

(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 Q4 was 55,505,329 and 55,481,718 for Fiscal 2014. The weighted average number of Shares outstanding for 2013 Q4 was 55,466,904 and 51,929,357 for Fiscal 2013.

(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 Fiscal 2014 the Company recognized $13,490 of ITCs, however a related contractual liability exists to a customer of $1,766.

(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 Fiscal 2014, approximately 84% of revenue was USD denominated and approximately 16% was CAD denominated. As at December 28, 2014, the backlog consisted of firm CAD orders of 122 EUs ($50 million U.S. equivalent) representing approximately 4.5% of firm orders. CAD options at December 28, 2014 totaled 386 EUs ($155 million U.S. equivalent) representing approximately 6.8% 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 Q4, 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 Fiscal 2015. The expectation is based on current production plans and may change based on the number of buses delivered to Canadian customers during Fiscal 2015. 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 Q4, the Company recorded a realized foreign exchange loss of $0.1 million (2013 Q4: $0.2 million) and a foreign exchange loss of $1.5 million during Fiscal 2014 (Fiscal 2013: $0.1 million).

At December 28, 2014, the Company had $2.8 million of foreign exchange forward contracts to buy Canadian dollars and contracts to buy $0.2 million of British pounds. The foreign exchange forward contracts range in expiry dates from January 2015 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 $689 (Fiscal 2013: $740 liability) is recorded on the consolidated statements of financial position as a current derivative financial instruments liability and the corresponding change in the fair value of the foreign exchange forward contracts has been recorded in the consolidated statements of net earnings and comprehensive income.

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 Q4 (13-Weeks)**	2013 Q4 (13-Weeks)	**Fiscal 2014 (52-Weeks)**	Fiscal 2013 (52-Weeks)
Bus Manufacturing Revenue	$ 336,633	$ 313,222	$ 1,132,066	$ 984,425
Aftermarket Revenue	83,356	67,982	319,034	214,999
Total Revenue	$ 419,989	$ 381,204	$ 1,451,100	$ 1,199,424
Earnings from Operations(1)	15,575	23,977	50,620	51,109
Earnings before finance costs and income taxes	15,892	22,191	51,440	48,963
Earnings before income taxes	12,395	18,953	37,568	34,617
Net earnings for the period	7,427	13,732	26,719	26,761

(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 $420.0 million for 2014 Q4, an increase of 10.2% compared to consolidated revenue for 2013 Q4 of $381.2 million, and consolidated revenue for Fiscal 2014 of $1.45 billion, an increase of 21.0% from Fiscal 2013 consolidated revenue of $1.20 billion. The 2014 Q4 revenue growth is primarily a result of increased bus production and aftermarket volumes, whereas Fiscal 2014's growth was also a result of business acquisitions in Fiscal 2013 and the CTA mid-life overhaul program.

Revenue from bus manufacturing operations for 2014 Q4 was $336.6 million, an increase of 7.5% from $313.2 million in 2013 Q4. The increase in 2014 Q4 revenue primarily resulted from a 7.1% increase in total bus deliveries of 680 EUs in 2014 Q4 compared to 2013 Q4 deliveries of 635 EUs and a 0.3% increase in average selling price per EU in 2014 Q4 of $495.0 thousand compared to $493.3 thousand in 2013 Q4. Similarly, bus revenue for Fiscal 2014 of $1.13 billion increased 15.0% from $984.4 million for Fiscal 2013. Bus deliveries of 2,437 EUs in Fiscal 2014 increased 11.2% compared to 2,191 EUs in Fiscal 2013 and the average selling price per EU in Fiscal 2014 of $464.5 thousand increased 3.4% from $449.3 thousand in Fiscal 2013. The increase in average selling price is the result of changes in the product sales mix, which included fewer articulated buses during Fiscal 2014. The average selling price can be volatile when comparing fiscal quarters as a result of sales mix. The increased deliveries during Fiscal 2014 were primarily as a result of including NABI bus deliveries effective June 21, 2013. Additionally, the total bus inventory for the Company at December 28, 2014 was 358 EUs, which is a decrease of 41 EUs from the previous quarter, attributed primarily to the recovery of deliveries on a contract where the customer had delayed inspection and acceptance. All but two of the buses under this contract were delivered by December 28, 2014.

Revenue from aftermarket operations in 2014 Q4 was $83.4 million, an increase of 22.6% compared to $68.0 million in 2013 Q4 resulting from an improved aftermarket parts market. Revenue from aftermarket operations for Fiscal 2014 was $319.0 million, an increase of 48.4% compared to $215.0 million in Fiscal 2013. The increase in aftermarket operations revenue during Fiscal 2014 is primarily a result of increased volumes as a result of incremental revenue from the CTA mid-life overhaul program, the Orion parts business and the NABI Parts business. The revenue from aftermarket operations (excluding the CTA mid-life program) for Fiscal 2014 was $271.8 million compared to $208.9 million in Fiscal 2013. The CTA overhaul program stream of revenue is expected to continue until June 2015.

Cost of sales

The consolidated cost of sales for 2014 Q4 of $380.7 million increased by 12.6% from 2013 Q4 consolidated cost of sales of $338.2 million. Fiscal 2014 consolidated cost of sales of $1.31 billion increased by 21.7% from Fiscal 2013 consolidated cost of sales of $1.08 billion. The increased percentage of cost of sales is consistent with the related increase in revenue during Fiscal 2014.

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 Q4 was $314.3 million (93.4% of revenue from bus manufacturing operations) compared to $284.9

million (91.0% of revenue from bus manufacturing operations) in 2013 Q4, an increase of 10.3%. This increase in cost of sales primarily relates to 7.1% more deliveries in 2014 Q4 and mix of higher costing buses as compared to the prior period. The cost of sales from bus manufacturing operations of $1.06 billion in Fiscal 2014 (93.6% of revenue from bus manufacturing operations) increased by 16.5% as compared to $911.9 million in Fiscal 2013 (92.6% of revenue from bus manufacturing operations). This increase in cost of sales primarily relates to 11.2% more deliveries in Fiscal 2014 as compared to Fiscal 2013 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 $66.4 million (79.7% of aftermarket operations revenue) in 2014 Q4 which increased 24.6% compared to $53.3 million (78.4% of aftermarket operations revenue) in 2013 Q4. During Fiscal 2014, cost of sales from aftermarket operations was $250.2 million (78.4% of aftermarket operations revenue) as compared to $166.7 million (77.5% of aftermarket operations revenue) in Fiscal 2013, representing an increase of 50.1%, primarily as a result of the increase in sales volumes, including incremental sales from the CTA midlife overhaul program which had lower than average margins.

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

The consolidated SG&A for 2014 Q4 of $22.6 million increased 20.7% compared with $18.8 million in 2013 Q4. Consolidated SG&A for Fiscal 2014 were $81.3 million which increased 16.9% compared to $69.5 million in Fiscal 2013. The increase in consolidated SG&A during 2014 Q4 is primarily a result of increased product rationalization costs of $1.2 million and a deferred compensation expense increase of $2.4 million during 2014 Q4 primarily as a result of the performance targets being achieved. The increase in Fiscal 2014 SG&A is primarily a result of the addition of NABI, increased product rationalization costs, increased deferred compensation expense and incremental costs associated with the marketing and start-up manufacturing costs of MiDi®. The SG&A for Fiscal 2013 also included $6.0 million of incremental costs to explore and assess strategic and corporate initiatives related to the acquisition of NABI and the Orion parts business.

Realized foreign exchange loss/gain

In 2014 Q4, the Company recognized a net realized loss of $0.1 million compared with a net realized loss of $0.2 million in 2013 Q4. Similarly, in Fiscal 2014 the Company recognized a net realized loss of $1.5 million as compared with a net realized loss of $0.1 million in Fiscal 2013. During Fiscal 2014, the Company experienced a greater number of unfavourable settlements of foreign exchange contracts which resulted in an increase of realized foreign exchange losses as compared to Fiscal 2013. 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.

Earnings from operations

Consolidated earnings from operations for 2014 Q4 in the amount of $15.6 million (3.7% of revenue) decreased 35.0% compared to earnings from operations in 2013 Q4 of $24.0 million (6.3% of revenue). Fiscal 2014 consolidated earnings from operations were $50.6 million (3.5% of revenue), which represents a 1.0% decrease as compared to $51.1 million (4.3% of revenue) in Fiscal 2013.

The earnings from bus manufacturing operations (including amortization and depreciation) for 2014 Q4 were $5.6 million (1.7% of bus manufacturing revenue), compared to earnings of $15.5 million for 2013 Q4 (5.0% of bus manufacturing revenue). The decreased earnings during 2014 Q4 are primarily a result of increased amortization and deferred compensation expense when comparing the two periods. Fiscal 2014 earnings from bus manufacturing operations of $5.9 million (0.5% of revenue) decreased compared to $27.2 million (2.8% of revenue) in Fiscal 2013, primarily as a result of lower than average margins which management had previously provided guidance on and the $3.9 million impairment loss on equipment and intangible assets as a result of the decision to rationalize all buses to a common Xcelsior® platform. 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 $10.0 million (12.0% of aftermarket revenue) in 2014 Q4 increased 17.6% compared to 2013 Q4 earnings of $8.5 million (12.5% of aftermarket revenue). 2014 Q4 earnings from aftermarket operations increased primarily due to the increased volumes from the core operations and by the CTA midlife overhaul program, offset by the $0.9 million impairment loss related to a product license used in the aftermarket operations. In Fiscal 2014, the earnings from aftermarket operations were $44.7 million (14.0% of aftermarket revenue), which increased 87.0% compared to $23.9 million (11.1% of aftermarket revenue) in Fiscal 2013 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.

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 Q4	2013 Q4	Fiscal 2014	Fiscal 2013
Unrealized (gain) loss on forward foreign exchanges contracts	$ (583)	$ 850	$ (1,429)	$ 726
Unrealized loss on other non-monetary assets/liabilities	266	936	609	1,420
Unrealized foreign exchange (gain) loss	$ (317)	$ 1,786	$ (820)	$ 2,146

Earnings before interest and income taxes ("EBIT")

In 2014 Q4, the Company recorded EBIT of $15.9 million compared to EBIT of $22.2 million in 2013 Q4. The EBIT earned during Fiscal 2014 was $51.4 million compared to EBIT of $49.0 million in Fiscal 2013. EBIT has been impacted by non-cash and non-recurring items as follows:

(Unaudited, U.S. dollars in thousands)	2014 Q4	2013 Q4	Fiscal 2014	Fiscal 2013
Non-cash and non-recurring charges (recovery):				
Costs associated with assessing strategic and corporate initiatives	$ —	$ 575	$ —	$ 5,989
Unrealized foreign exchange (gain) loss	(317)	1,786	(820)	2,146
Stock-based compensation	158	100	679	298
Impairment loss on equipment and intangible assets(*)	912	—	4,831	—
Product rationalization costs	2,808	—	3,093	—
Non-recurring transitional costs relating to business acquisitions	—	—	581	1,152
Amortization	9,976	7,304	35,837	28,001
Total non-cash and non-recurring charges:	$ 13,537	$ 9,765	$ 44,201	$ 37,586

(*) On June 24, 2014 the Company announced its plan to phase out production of the NABI bus models from the Anniston, AL facility and transition to the Xcelsior® platform. This is expected to be completed 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. As well, the Company recorded an impairment loss of $0.9 million in 2014 Q4 related to a product license used in the aftermarket operations. The total impairment loss of $4.8 million has been included in net earnings.

Absent these non-cash charges/recoveries and non-recurring items, the 2014 Q4 EBIT would have been $29.4 million compared to $32.0 million in 2013 Q4 and Fiscal 2014 EBIT would have been $95.6 million compared to $86.6 million in Fiscal 2013.

Finance costs

The finance costs for 2014 Q4 were $3.5 million, increased when compared to $3.2 million in 2013 Q4. The finance costs for Fiscal 2014 of $13.9 million decreased compared to $14.3 million in Fiscal 2013, primarily as a result of the $0.8 million recovery related to the fair value adjustment on the interest rate swap which offset the $0.2 million of increased interest on long-term debt resulting from the $20.0 million of additional term loan issued in June 2013.

Earnings before income taxes ("EBT")

EBT for 2014 Q4 of $12.4 million decreased compared to EBT of $19.0 million in 2013 Q4 and the EBT for Fiscal 2014 of $37.6 million improved compared to EBT of $34.6 million in Fiscal 2013. The decrease in the EBT during 2014 Q4 resulted from the increased amortization from the assets related to the 2013 business acquisitions and the accelerated amortization due to the Company's product rationalization. The increase in Fiscal 2014 EBT compared to Fiscal 2013 was primarily a result of the increase in EBIT after considering the impact of the impairment losses realized in Fiscal 2014.

Income tax expense

The income tax expense for 2014 Q4 was $5.0 million, consisting of $11.2 million of current income tax expense and $6.2 million of deferred income tax expense recovered. In comparison, the income tax expense for 2013 Q4 was $5.2 million, consisting of $10.3 million of current income tax expense and $5.1 million of deferred income tax expense recovered.

The income tax expense for Fiscal 2014 was $10.8 million, consisting of $25.7 million of current income tax expense and $14.8 million of deferred income tax expense recovered. In comparison, the income tax expense for Fiscal 2013 was $7.9 million, consisting of $23.9 million of current income tax expense and $16.0 million of deferred income tax expense recovered. The effective income tax rate for Fiscal 2014 was 28.9% which increased compared to 22.7% in Fiscal 2013. The effective tax rate in any year depends on allocation of income between tax jurisdictions and therefore varies from year to year.

Net earnings

The Company reported net earnings of $7.4 million in 2014 Q4, a decrease of 45.9% compared to net earnings of $13.7 million in 2013 Q4. The Company's net earnings per Share in 2014 Q4 were $0.13, a decrease from net earnings per Share of $0.25 generated during 2013 Q4. The decreased net earnings in 2014 Q4 is primarily as a result of the increase in cost of sales which includes a $2.7 million increase in amortization. As a result of the Company's plan to rationalize to a common Xcelsior® platform for all heavy-duty and BRT buses, 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.

Fiscal 2014 net earnings of $26.7 million compares to Fiscal 2013 net earnings of $26.8 million. Fiscal 2014 net earnings were negatively impacted by the $4.8 million impairment loss and the $7.8 million increase in amortization when compared to Fiscal 2013. Net earnings per Share in Fiscal 2014 were $0.48 compared to $0.52 generated during Fiscal 2013. Net earnings per Share decreased in Fiscal 2014 primarily as a result of having more Shares outstanding after issuing 11.1 million Shares throughout Fiscal 2013.

Cash Flow

The cash flows of the Company are summarized as follows:

(Unaudited, U.S. dollars in thousands)	**2014 Q4**	**2013 Q4**	**Fiscal 2014**	**Fiscal 2013**
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	$ 33,028	$ 35,623	$ 104,677	$ 82,884
Interest paid	(2,175)	(1,848)	(11,621)	(10,949)
Income taxes paid	(1,525)	(2,813)	(11,978)	(18,968)
Net cash earnings	29,328	30,962	81,078	52,967
Changes in non-cash working capital items	(2,478)	(36,483)	(35,255)	(22,988)
Cash flow from (used in) operating activities	26,850	(5,521)	45,823	29,979
Cash flow (used in) from financing activities	(15,061)	13,833	(29,220)	93,045
Cash flow used in investing activities	(2,862)	(9,437)	(10,889)	(122,502)

Cash flows from operating activities

The 2014 Q4 net operating cash inflow of $26.9 million is the result of $29.3 million of net cash earnings offset by an increase in non-cash working capital of $2.5 million and compared to 2013 Q4 net operating cash outflow of $5.5 million which was the result of an increase in non-cash working capital of $36.5 million offset by $31.0 million of net cash earnings.

The Fiscal 2014 net operating cash inflow of $45.8 million is the result of $81.1 million of net cash earnings partially offset by an increase in non-cash working capital of $35.3 million compared to the net operating cash inflow of $30.0 million during Fiscal 2013. This was a result of $53.0 million of net cash earnings partially offset by an increase in non-cash working capital of $23.0 million. Fiscal 2014's increased investment in non-cash working capital of $35.3 million relates to increased inventory values at December 28, 2014 as a result of an increase in EUs in work in process, a sales mix that included higher priced buses and aftermarket growth as well as an decrease in deferred revenue. The change in working capital required at a point in time can be volatile based on the sales mix of customers and types of buses manufactured.

Cash flow from financing activities

The Company's financing activities resulted in a net cash outflow of $15.1 million and a cash inflow $13.8 million for 2014 Q4 and 2013 Q4, respectively. The cash outflow during 2014 Q4 primarily relates to $7.8 million repayment of the Revolver, finance leases and other long term liabilities and $7.2 million for payment of dividends. The cash inflow during 2013 Q4 primarily relates to the $23.0 million of the Revolver borrowings used to fund working capital and was offset by $7.8 million of dividends payments.

The cash outflow during Fiscal 2014 primarily relates to $29.5 million payment of dividends. The net cash inflow generated by financing activities of $93.0 million during Fiscal 2013 primarily relates to $111.7 million of cash received from Shares issued to Marcopolo S.A. and $13.6 million of new term debt (net of Revolver repayments) used to finance business acquisitions, offset by $29.3 million for dividends.

Cash flow from investing activities

2014 Q4 investing activities resulted in a net cash outflow of $2.9 million compared to $9.4 million in 2013 Q4 and Fiscal 2014 investing activities resulted in a net cash outflow of $10.9 million compared to $122.5 million in Fiscal 2013 used to acquire NABI and the Orion parts business.

Cash outflows as a result of property, plant and equipment ("PPE") expenditures shown below:

(Unaudited, U.S. dollars in thousands)	**2014 Q4**	**2013 Q4**	**Fiscal 2014**	**Fiscal 2013**
PPE expenditures	$ 2,939	$ 9,156	$ 14,095	$ 16,507
Less PPE expenditures funded as part of Orion parts business	—	—	—	(394)
Less PPE expenditures funded by capital leases	(133)	(119)	(3,433)	(674)
Acquisition of PPE reported on statement of cash flows	2,806	9,037	10,662	15,439
Less PPE expenditures funded by senior term loan for asset acquisitions*	(1,151)	(928)	(2,265)	(1,603)
Cash PPE expenditure	$ 1,655	$ 8,109	$ 8,397	$ 13,836

***** The proceeds of the Term Credit Facility drawn in fiscal 2012 have been now been fully applied to the related PPE expenditures.

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, customer payment terms, 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$21.1 million during 2014 Q4 as compared to C$15.7 million in 2013 Q4 primarily as a result of decreased cash capital expenditures and a higher U.S. exchange rate. The Company declared dividends in 2014 Q4 of C$8.1 million similar to C$8.1 million in 2013 Q4.

The Company generated Free Cash Flow of C$65.5 million during Fiscal 2014 as compared to C$45.1 million in Fiscal 2013. The Company declared dividends in Fiscal 2014 of C$32.5 million as compared to C$30.7 million in Fiscal 2013. The amount of dividends declared increased in Fiscal 2014 primarily as a result of issuing 11.1 million Shares in Fiscal 2013. The Free Cash Flow payout ratio of 49.6% in Fiscal 2014 improved as compared to 68.1% during Fiscal 2013. 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 113 consecutive months since the Company's initial public offering in August 2005.

The December 28, 2014 liquidity position of $73.2 million (comprised of available cash of $17.5 million and $55.7 million available under the Revolver) increased as compared to a liquidity position of $69.2 million at December 29, 2013. As at December 28, 2014, there were $40.0 million of direct borrowings and $19.3 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 December 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:

	December 28, 2014	December 29, 2013
Total Leverage Ratio (must be less than 3.25)	1.65	1.67
Interest Coverage Ratio (must be greater than 3.00)	8.65	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 $1.7 million at December 28, 2014 (December 29, 2013: $2.5 million) was recorded on the consolidated statements of financial position as a derivative financial instruments liability and the change in fair value has been recorded as finance costs for the reported period.

Credit risk

Financial instruments which potentially subject the Company to credit risk and concentrations of credit risk consist principally of cash, accounts receivable and derivatives. Management has assessed that the credit risk associated with accounts receivable is mitigated by the significant proportion for which the counterparties are well established transit authorities. Additionally, the U.S. federal government funds a substantial portion of U.S. customer payments - 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 consolidated statements of net earnings and comprehensive income.

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

	December 28, 2014	December 29, 2013
Current, including holdbacks	$ 197,441	$ 213,101
<u>Past due amounts but not impaired</u>		
1 – 60 days	14,200	16,370
Greater than 60 days	746	1,270
Less: allowance for doubtful accounts	(262)	(426)
Total accounts receivables, net	$ 212,125	$ 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 December 28, 2014:

US dollars in thousands	Total	2015	2016	2017	2018	2019	Post 2019
Senior term loan	$ 153,250	$ 5,000	$ 5,000	$ 143,250	$ —	$ —	$ —
Convertible debentures	74,763	4,050	4,050	66,663	—	—	—
Other long-term liabilities	7,250	3,000	2,250	1,000	1,000	—	—
Finance leases	5,079	1,854	1,711	1,049	388	77	—
Accrued benefit liability	3,270	3,270	—	—	—	—	—
Operating leases	46,563	5,498	5,348	5,426	5,474	4,584	20,233
	$ 290,175	$ 22,672	$ 18,359	$ 217,388	$ 6,862	$ 4,661	$ 20,233

As at December 28, 2014, outstanding surety bonds guaranteed by the Company amounted to $158.1 million, representing an increase compared to $147.2 million at December 29, 2013. The estimated maturity dates of the surety bonds outstanding at December 28, 2014 range from January 2015 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 December 28, 2014, letters of credit amounting to $19.3 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 December 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.

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
Granted on December 28, 2014	499,974	—	—	499,974	December 28, 2022	C$13.45	C$1.83
	1,602,380	(120,090)	(2,500)	1,479,790	Weighted average=	C$11.36	

The following reconciles the stock options outstanding:

	Fiscal 2014		Fiscal 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	1,112,024	C$11.86	490,356	C$10.20
Exercised during the period	(2,500)	C$10.20	—	—
Balance at end of period	1,599,880	C$11.36	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.

On May 8, 2014, shareholders' approved the Company's Restricted Share Unit Plan for Non-Employee Directors (the "Director RSU Plan"). A maximum of 500,000 Shares are reserved for issuance under the Director RSU Plan. Pursuant to the Director RSU Plan, non-employee directors are permitted to elect, once each calendar year, to receive all or a portion of their annual retainer in the form of Director RSUs and/or DSUs instead of cash. A Director RSU is a right to acquire a fully-paid and non-assessable Share credited by means of a bookkeeping entry to an account in the name of the non-employee director. A director generally must make the election prior to the end of the calendar year preceding the year to which such election is to apply. The Board, in its sole discretion, may award additional Director RSUs, subject to an annual aggregate value of $150,000 per director. The number of Director RSUs to be awarded to a director is determined by dividing the amount of the applicable portion of the director's annual retainer by the applicable fair market value of a Share on that date. When dividends are paid on a Share, additional Director RSUs equivalent to the aggregate number of Director RSUs held by a director on the dividend record date multiplied by the amount of dividend paid by NFI on each Share, and then divided by the fair market value of the Shares on the dividend payment date, will automatically be credited to the director's account. Under the Director RSU Plan, Director RSUs vest immediately as at each applicable award date. A director (other than a U.S. director) will be permitted to exercise the Director RSUs credited to his or her account at any time prior to December 15 of the year following the year in which the director ceases to be a non-employee director of NFI or one of its affiliates. A U.S. director will be required to specify the exercise date in an annual election form in accordance with Section 409A of the U.S. Internal Revenue Code. No Director RSUs were issued in Fiscal 2014.

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

Management 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 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. Management 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. Management'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

Management 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, management 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

Management 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

<u>International Financial Reporting Interpretations Committee ("IFRIC") 21 – Levies</u>

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 results of operations.

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.

<u>IFRS 9 - Financial Instruments:</u>

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

<u>IFRS 15 – Revenue from Contracts with Customers:</u>

On May 28, 2014, the IASB issued IFRS 15 – Revenue from Contract with Customers, which will become 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. Management 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.

On December 15, 2014, management adopted the "Internal Control – Integrated Framework 2013 ("COSO 2013") from the Committee of Sponsoring Organization of the Treadway Commission, which replaces the previously issued COSO framework, COSO 1992. This new framework necessitated a re-evaluation of the controls that management relies upon to support its conclusions, as well as changes to the Company's testing programs. This new framework, the changes to controls management relies upon, and the additional testing performed do not have a material impact on management's conclusions regarding the Company's ICFR and disclosure controls and procedures.

Management, under the supervision of the CEO and CFO, evaluated the design and operational effectiveness of the Company's ICFR as of December 28, 2014 in accordance with the criteria established in COSO 2013, and concluded that the Company's ICFR are effective.

Management believes there have been no other changes in the Company's ICFR during 2014 Q4 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 28, 2014 were effective.

Consolidated Financial Statements of

NEW FLYER INDUSTRIES INC.

December 28, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of New Flyer Industries Inc.

We have audited the accompanying consolidated financial statements of New Flyer Industries Inc., which comprise the consolidated statements of financial position as at December 28, 2014 and December 29, 2013, and the consolidated statements of net earnings and comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of New Flyer Industries Inc. as at December 28, 2014 and December 29, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Accountants

March 18, 2015
Winnipeg, Manitoba

NEW FLYER INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF NET EARNINGS AND COMPREHENSIVE INCOME

52 weeks ended December 28, 2014 (“Fiscal 2014”) and 52 weeks ended December 29, 2013 (“Fiscal 2013”)

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

	Fiscal 2014	Fiscal 2013
Revenue (note 20)	$ 1,451,100	$ 1,199,424
Cost of sales (note 4, 25)	1,312,817	1,078,657
Gross profit	138,283	120,767
Sales, general and administration costs and other operating expenses (note 25)	81,285	69,540
Foreign exchange loss (note 19c)	1,547	118
Impairment loss on equipment and intangible assets (note 6)	4,831	—
Earnings from operations	50,620	51,109
Unrealized foreign exchange (gain) loss on non-current monetary items	(820)	2,146
Earnings before interest and income taxes	51,440	48,963
Finance costs		
Interest on long-term debt and convertible debentures	8,897	8,749
Accretion in carrying value of long-term debt and convertible debentures	2,229	2,208
Other interest and bank charges	3,521	2,857
Fair market value adjustment on interest rate swap	(775)	532
	13,872	14,346
Earnings before income tax expense	37,568	34,617
Income tax expense (note 7)		
Current income taxes	25,691	23,849
Deferred income taxes recovered	(14,842)	(15,993)
	10,849	7,856
Net earnings for the period	$ 26,719	$ 26,761
Other comprehensive (loss) income for the period, net of tax		
Actuarial (loss) gain on defined benefit pension plan (net of tax) - this item will not be reclassified subsequently to profit or loss (note 17)	(1,048)	1,489
Comprehensive income for the period	$ 25,671	$ 28,250
Net earnings per share (basic) (note 15)	$ 0.48	$ 0.52
Net earnings per share (diluted) (note 15)	$ 0.48	$ 0.51

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

NEW FLYER INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at December 28, 2014 and December 29, 2013
(in thousands of U.S. dollars)

	December 28, 2014	December 29, 2013
Assets		
Current		
Cash	$ 17,456	$ 11,896
Accounts receivable (note 3,19c)	212,125	230,315
Income tax receivable	778	—
Inventories (note 4)	230,002	183,338
Derivative financial instruments (note 19 b,c)	689	—
Prepaid expenses and deposits	4,393	7,658
	465,443	433,207
Property, plant and equipment (note 5)	63,804	64,832
Unused investment tax credits	169	13,659
Deferred tax assets (note 7)	62,235	55,290
Goodwill and intangible assets (note 2.24 and 6)	544,464	569,414
	$ 1,136,115	$ 1,136,402
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 233,073	$ 213,488
Income taxes payable	—	504
Current portion of deferred revenue (note 13)	40,805	57,614
Provision for warranty costs (note 24)	32,330	26,102
Current portion of long-term debt (note 10)	40,000	35,000
Derivative financial instruments (note 19 b,c)	—	740
Current portion of deferred compensation obligation (note 9)	6,090	258
Current portion of obligations under finance leases (note 8)	1,551	1,283
	353,849	334,989
Accrued benefit liability (note 17)	1,026	228
Obligations under finance leases (note 8)	3,225	1,770
Deferred compensation obligation (note 9)	2,939	1,663
Deferred revenue (note 13)	5,118	17,382
Other long-term liabilities	6,677	9,303
Deferred tax liabilities (note 7)	108,465	114,816
Long-term debt (note 10)	140,747	140,241
Convertible debentures (note 11)	59,714	58,322
Derivative financial instruments (note 19 b, c)	1,733	2,508
	683,493	681,222
Commitments and contingencies (note 22)		
Shareholders' equity		
Share capital (note 14)	589,586	589,208
Stock option reserve (note 12)	1,046	299
Equity component of convertible debentures (note 11)	3,820	3,841
Accumulated other comprehensive loss	(6,049)	(5,001)
Deficit	(135,781)	(133,167)
	452,622	455,180
	$ 1,136,115	$ 1,136,402

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

Approved and authorized by the board of directors on March 18, 2015. *"Hon. Brian V. Tobin, Director"* *" Wayne McLeod, Director"*

NEW FLYER INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

December 28, 2014

(in thousands of U.S. dollars)

	Share Capital	Equity Component of Convertible Debentures (note 11)	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	—	—	—	—	26,761	26,761
Other comprehensive income	—	—	—	1,489	—	1,489
Dividends declared on common shares	—	—	—	—	(29,647)	(29,647)
Share based compensation	—	—	299	—	—	299
Shares issued	113,782	—	—	—	—	113,782
Share issuance costs (net of tax $554)	(1,492)	—	—	—	—	(1,492)
Balance, December 29, 2013	**$ 589,208**	**$ 3,841**	**$ 299**	**$ (5,001)**	**$ (133,167)**	**$ 455,180**
Net earnings	—	—	—	—	26,719	26,719
Other comprehensive loss	—	—	—	(1,048)	—	(1,048)
Dividends declared on common shares	—	—	—	—	(29,333)	(29,333)
Share based compensation	—	—	751	—	—	751
Shares issued	26	—	(4)	—	—	22
Conversion of debentures to common shares (note 11)	352	(21)	—	—	—	331
Balance, December 28, 2014	**$ 589,586**	**$ 3,820**	**$ 1,046**	**$ (6,049)**	**$ (135,781)**	**$ 452,622**

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

NEW FLYER INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

52 weeks ended December 28, 2014 and 52 weeks ended December 29, 2013

(in thousands of U.S. dollars)

	Fiscal 2014	Fiscal 2013
Operating activities		
Net earnings for the period	$ 26,719	$ 26,761
Income tax expense (note 7)	10,849	7,856
Depreciation of plant and equipment	15,372	9,559
Amortization of intangible assets	20,465	18,442
Share based compensation	679	299
Finance costs recognized in profit or loss	13,872	14,346
Unrealized foreign exchange (gain) loss on non-current monetary items	(820)	2,146
Foreign exchange loss (gain) on cash held in foreign currency	154	(192)
Impairment loss on equipment and intangible assets	4,831	—
Realized investment tax credits	13,490	9,603
Defined benefit expense (note 17)	2,595	2,778
Defined benefit funding (note 17)	(3,529)	(8,714)
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	104,677	82,884
Changes in non-cash working capital items (note 16)	(35,255)	(22,988)
Cash generated from operations before interest and income taxes paid	69,422	59,896
Interest paid	(11,621)	(10,949)
Income taxes paid	(11,978)	(18,968)
Net cash generated from operating activities	45,823	29,979
Financing activities		
Repayment of obligations under finance lease	(1,766)	(2,003)
Proceeds from issue of long-term debt	5,000	13,609
Share issuance	26	113,782
Costs associated with share issuance	—	(2,051)
Repayment of other long-term liabilities	(2,948)	(1,000)
Dividends paid	(29,532)	(29,292)
Net cash (used in) generated from financing activities	(29,220)	93,045
Investing activities		
Net cash used in the acquisition of NABI-Optima Holdings Inc. (note 1.1)	—	(75,023)
Acquisition of Orion aftermarket parts business	—	(20,608)
Acquisition of Orion's accounts receivables	—	(5,920)
Acquisition of intangible assets	(227)	(5,512)
Acquisition of property, plant and equipment	(10,662)	(15,439)
Net cash used in investing activities	(10,889)	(122,502)
Effect of foreign exchange rate on cash	(154)	192
Increase in cash	5,560	714
Cash — beginning of period	11,896	11,182
Cash — end of period	$ 17,456	$ 11,896

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

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

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 financial statements (the "Statements") were approved by the Company's board of directors (the "Board") on March 18, 2015.

1.1 Acquisition of NABI

On June 21, 2013, the Company acquired 100% of the voting equity interest in NABI-Optima Holdings Inc. ("NABI") from an affiliate of Cerberus Capital Management, L.P. for cash consideration of approximately $80.0 million, virtually all for the satisfaction of affiliate debt. The purchase price was funded by the proceeds from the C$64.7 million equity investment by a wholly-owned Canadian subsidiary of Marcopolo S.A. and an additional $20.0 million that was drawn from the Company's renewed senior secured credit facility. The acquisition has been accounted for using the acquisition method. The fair values of the identifiable assets and liabilities acquired have been based on management's best estimates and valuation techniques as at June 21, 2013 (the "Acquisition Date"). The Company adjusted the preliminary purchase price allocation as set out below to account for information that was not readily available at the Acquisition Date. The preliminary purchase price allocation of goodwill was finalized on June 20, 2014.

	Original	Adjustments	Revised
Cash purchase price	$ 80,000	$ —	$ 80,000
Less: NABI's cash acquired	7,997	(3,020)	4,977
Net cash used in acquisition	72,003	3,020	75,023
Net assets acquired			
Accounts receivable	54,493	(6,897)	47,596
Inventories	55,575	6,851	62,426
Prepaid expenses and deposits	788	—	788
Property, plant and equipment	15,558	—	15,558
Accounts payable and accrued liabilities	(62,734)	1,985	(60,749)
Deferred revenue	(10,794)	—	(10,794)
Provision for warranties	(15,410)	—	(15,410)
Other long-term liabilities	(10,102)	—	(10,102)
Net tangible assets acquired	27,374	1,939	29,313
Trade names	7,100	—	7,100
Patent and licenses	3,200	—	3,200
Customer relationships	26,000	—	26,000
Identifiable intangible assets acquired	36,300	—	36,300
Goodwill acquired	$ 8,329	$ 1,081	$ 9,410

In 2014, the Company operated the NABI bus and NABI parts operations of NABI under the entities NABI Bus, LLC ("NABI Bus") and NABI Parts, LLC ("NABI Parts"), respectively. Both companies are part of the New Flyer group of companies. The goodwill acquired is largely attributable to the synergies and economies of scale expected from the combined businesses of NFI and NABI. This goodwill is expected to be deductible for tax purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

These Statements were prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS"), which requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Statements are disclosed in Note 2.22.

2.2 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 ("NFI ULC"), 1176846 Alberta ULC, TCB Enterprises, LLC, NABI Bus, NABI Parts, Transit Acquisition, LLC, Transit Parts Holdings, Inc. and Transit Finco, Inc. Effective, December 28, 2014, NABI Bus was merged with and into New Flyer of America Inc.

<u>Subsidiaries</u>

Subsidiaries are entities over which the Company has control, where control is achieved when the Company: has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. The Company holds 100% of the voting rights in, and therefore controls its subsidiaries.

The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries as follows:

- cost is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, and business acquisition related expenses are expensed as incurred;
- identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date;
- the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill; and
- if the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is re-assessed and any remaining difference is recognized directly in the consolidated statements of net earnings and comprehensive income.

Intercompany transactions between subsidiaries are eliminated on consolidation.

<u>Joint Operations</u>

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 joint arrangement is accounted for in accordance with IFRS 11, see note 2.20.

2.3 Operating segments

The Company's operating segments are organized around the markets it serves and are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The President and Chief Executive Officer has authority for resource allocation and assessment of the Company's performance and therefore acts as the CODM.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency

The Statements are presented in U.S. dollars, which is also the Company's functional currency.

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in the consolidated statements of net earnings and comprehensive income.

Monetary balances denominated in a currency other than U.S. dollars are translated at the period end rates of exchange, and the results of the operations are translated at average rates of exchange for the period. Non-monetary balances are translated at the exchange rate prevailing at the date of the transaction.

Foreign exchange gains and losses that relate to borrowings, non-current monetary items and non-current forward foreign exchange contracts are presented in the consolidated statements of net earnings and comprehensive income within “unrealized foreign exchange loss (gain) on non-current monetary items”. All other foreign exchange gains and losses are presented in the consolidated statements of net earnings and comprehensive income within “foreign exchange loss.”

References to “$” are to U.S. dollars, references to “C$” are to Canadian dollars.

2.5 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of estimated returns and discounts, and after eliminating intercompany sales. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from the sale of goods and services in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement or authorized sales order, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

In addition, when a single sale transaction requires the delivery of more than one product or service (multiple components), the revenue recognition criteria are applied to the separately identifiable components. A component is considered to be separatelyidentifiable if the product or service delivered has stand-alone value to that customer and the fair value associated with the product or service can be measured reliably. The amount recognized as revenue for each component is the fair value of the element in relation to the fair value of the arrangement as a whole.

The Company sells extended warranty contracts that provide coverage in addition to the basic one-year coverage. Proceeds from the sale of these contracts are deferred and amortized over the extended warranty period commencing at the end of the basic warranty period.

The Company also receives proceeds from the sale of extended warranties relating to major subsystems such as engines, transmissions, axles and air conditioning that are purchased for the customer from the Original Equipment Manufacturer (“OEM”). The related cost to purchase the OEM warranty contracts have been recorded as a reduction of revenue as the Company is an agent to the transaction.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Employee benefits

For defined benefit pension plans and other post-employment benefits, the net periodic pension expense is actuarially determined by independent actuaries using the projected unit credit method. Actuarial remeasurement is comprised of actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), and is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in accumulated other comprehensive loss and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are comprised of service costs (including current service cost, past service cost and gain or losses on curtailments and settlements), net interest expense or income and remeasurement.

The asset or liability recognized in the consolidated statements of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for past service costs. 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. For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan.

Payments to defined contribution plans are expensed as incurred, which is as the related employee service is rendered.

2.7 Share-based compensation plans

The Company operates cash-settled and equity-settled share-based compensation plans under which it receives services from employees and non-employee members of the Board.

For the cash-settled plans (note 9), the expense is determined based on the fair value of the liability at the end of the reporting period until the awards are settled. Certain share-based compensation plans include non-market performance conditions. The Company`s accounting policy is to recognize the impact of non-market performance conditions by adjusting the number of awards that are expected to vest. At the end of each reporting period, the Company re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions on compensation expense (note 21) in the consolidated statements of net earnings and comprehensive income.

For the equity-settled plans (note 12), share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period in which the options vest. The offset to the recorded cost is to stock option reserve. Consideration received on the exercise of stock options is recorded as share capital and the related stock option reserve is transferred to share capital. Upon expiry, the recorded value is transferred to deficit. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the consolidated statements of net earnings and comprehensive income such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the stock option reserve. Where the terms and conditions of options are modified, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statements of net earnings and comprehensive income.

2.8 Cash

Cash and cash equivalents comprise cash on hand, demand deposits and investments with an original maturity at the date of purchase of three months or less.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Accounts receivables

Accounts receivables are amounts due from customers from the rendering of services or sale of goods in the ordinary course of business. Accounts receivables are classified as current assets if payment is due within one year or less. Accounts receivables are recognized initially at fair value and subsequently measured at amortized cost, less impairment, if any.

The Company maintains an allowance for doubtful accounts and sales adjustments to provide for impairment of trade receivables. The expense relating to doubtful accounts is included within "Sales, general and administration costs and other operating expenses" in the consolidated statements of net earnings and comprehensive income.

2.10 Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

2.11 Property, plant and equipment

Property, plant and equipment are recorded at cost reduced by applicable investment tax credits, less accumulated depreciation. Depreciation is calculated at the following annual rates:

Building and building improvements	4% declining-balance basis
Machinery and equipment	25% declining-balance basis
Demonstrator buses	50% straight-line basis
Computer hardware and software	30% declining-balance basis
Office equipment	20% declining-balance basis

Depreciation of equipment under finance leases is based on the lesser of the equipment's useful life or the term of the finance lease.

Leases of property, plant and equipment on terms that transfer substantially all of the risks and rewards of ownership are accounted for as finance leases. All other leases of property, plant and equipment are accounted for as operating leases.

Property, plant and equipment are tested for impairment as described under "Impairment of non-financial assets" in note 2.14.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Intangible assets

Identifiable intangible assets are initially recorded at fair value. Based on management's forecasts and business plans and the going concern of the Company, the "New Flyer" trade name intangible asset (note 6) has been deemed to have an indefinite life. For purposes of impairment testing, the fair value of trade names is determined using an income approach.

Intangible assets that have a finite life are amortized using the straight-line method over the estimated useful lives of the assets as follows:

Patents and Licenses	5-12 years
Customer relationships	21 years

Identifiable intangible assets with finite lives are tested for impairment as described under "Impairment of non-financial assets" in note 2.14.

2.13 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired business at the date of acquisition. Separately recognized goodwill is tested at the end of every reporting period for possible impairment when there are events or changes in circumstances that indicate that their carrying amounts may not be recoverable and also tested annually for impairment. Goodwill is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

2.14 Impairment of non-financial assets

Non-financial assets with finite lives are tested at the end of every reporting period for possible impairment when there are events or changes in circumstances that indicate that their carrying amounts may not be recoverable. In addition, non-financial assets that are not amortized are subject to an annual impairment assessment. The carrying values of identifiable intangible assets with indefinite lives are tested annually for impairment because they are not amortized. Impairment is determined by comparing the recoverable amount of such assets with their carrying amounts. Any impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount within earnings of continuing or discontinued operations, as appropriate. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows or cash generating units ("CGUs"). The Company evaluates impairment losses for potential reversals, other than goodwill impairment, when events or changes in circumstances warrant such consideration.

2.15 Provisions

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses, unless the losses relate to an onerous contract. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each consolidated statements of financial position date using the current discount rate. The increase in the provision due to passage of time is recognized as interest expense.

At the time of sale, a provision for warranty claims relating to the one-year base warranty on the entire bus and a 12-year corrosion warranty on the bus structure, is recorded and charged against operations. This warranty provision is based upon management's best estimate of expected future warranty costs utilizing past claims experience. Actual warranty expenditures are charged against the provision as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

2.16 Long-term debt

Long-term debt is recognized initially at fair value, net of transaction costs incurred. Debt is subsequently stated at amortized cost with any difference between the proceeds and the amortized cost recognized in the consolidated statements of net earnings and comprehensive income over the term of the debt using the effective interest method.

Debt is classified as a current liability unless the Company has an unconditional right to defer settlement for at least 12 months after the consolidated statements of financial position date.

2.17 Financial instruments

<u>Financial assets</u>

Purchases and sales of financial assets are recognized on the settlement date, which is the date on which the asset is delivered to or by the Company. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or were transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets are classified in the following categories at the time of initial recognition based on the purpose for which the financial assets were acquired:

<u>Financial assets at fair value through profit or loss</u>

Classification

Financial assets at fair value through profit or loss are financial assets held for trading or designated as fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Assets in this category include derivative financial instruments and are classified as current assets in the consolidated statements of financial position.

Recognition and measurement

Financial assets are initially recognized at fair value and subsequently carried at fair value through profit and loss, with changes recognized in the consolidated statements of net earnings and comprehensive income. Transaction costs are expensed as incurred.

<u>Loans and receivables</u>

Classification

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the consolidated statements of financial position date, which are classified as non-current assets. Assets in this category include accounts receivables, deposits and cash and are classified as current assets in the consolidated statements of financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recognition and measurement

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

Financial liabilities

Financial liabilities primarily consist of accounts payable and accrued liabilities, derivative financial instruments, convertible debentures and long-term debt. Financial liabilities are initially measured at fair value and subsequently measured at amortized cost unless classified as fair value through profit or loss.

Derivative instruments

Derivatives are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at their fair value. The Company's 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 (gain) on non-current monetary items" in the consolidated statements of net earnings and comprehensive income consistent with the underlying nature and purpose of the derivative instruments.

Embedded derivatives

The Company can have embedded foreign currency derivatives in certain revenue and purchase contracts where the currency of the contract is different from the functional or local currencies of the parties involved. These derivatives are accounted for as separate instruments and are measured at fair value at each consolidated statements of financial position date using forward exchange market rates.

2.18 Taxation

Tax expense comprises current and deferred tax. Tax is recognized in the consolidated statements of net earnings and comprehensive income except to the extent it relates to items recognized directly in equity, in which case the related tax is recognized in equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the date of the consolidated statements of financial position.

Deferred tax is accounted for using the liability approach and is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the consolidated statements of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax is calculated based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply to the year of realization or settlement based on tax rates and laws enacted or substantively enacted at the date of the consolidated statements of financial position.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). The carrying amount of deferred tax assets is reviewed at each consolidated statements of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred tax liabilities are generally recognized for all taxable temporary differences except to the extent that the deferred tax liability arises from: the initial recognition of goodwill; or the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

As well, deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

2.19 Investment tax credits

The Company has earned investment tax credits ("ITCs") relating to qualified alternative fuel motor vehicles previously delivered, and also on a percentage of eligible current and capital research and development expenditures incurred in each taxation year. Investment tax credits are recognized when there is reasonable assurance that the Company will comply with the associated conditions and the grants will be received. The investment tax credits are recognized either as a reduction in cost of sales on the consolidated statements of net earnings and comprehensive income, or as a reduction in property, plant and equipment, depending on where the original costs which gave rise to the credits were recorded.

2.20 Vendor Rebates

The Company records certain consideration received from a vendor, which is probable and can be reasonably estimated, as a reduction of the cost of purchases during the period, even if the full requirements for entitlement to these rebates have not yet been met. The amount of vendor rebates recorded is based on purchases-to-date and management's best estimate of rebate levels that will be achieved through the duration of the contract.

2.21 Interest in Joint Operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Company recognizes in relation to its interest in a joint operation:

(a) its assets, including its share of any assets held jointly;
(b) its liabilities, including its share of any liabilities incurred jointly;
(c) its revenue from the sale of its share of the output arising from the joint operation;
(d) its share of the revenue from the sale of the output by the joint operation; and
(e) its expenses, including its share of any expenses incurred jointly.

2.22 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

Management 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 comprehensive income in the periods in which they become known. The assets and liabilities which require management to make significant estimates and assumptions in determining carrying values include, but are not

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

limited to, inventories, derivative financial instruments, property, plant and equipment, intangible assets, goodwill, provision for warranty costs, accrued benefit 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 the initial recognition and impairment tests of the 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.

Management 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 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 and also when indicators of impairment exist.

Accrued benefit liability

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, life expectancy and the expected rate of future compensation changes.

Actual results will differ from results which are estimated based on assumptions. See note 2.6 for certain assumptions made with respect to employee benefits.

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. Management'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. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 quality initiatives, as well as parts and labour costs.

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

As described in note 2.5, Management assessed the criteria for the recognition of revenue related to arrangements that have multiple components as set out in IAS 18. Also, judgment is necessary to determine when components can be recognized separately and the allocation of the related consideration allocated to each component.

Also described in note 2.5, Management 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 OEM as set out in IAS 18.

Functional currency

Management 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 focusing 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 determines 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, LLC) and NABI Parts, LLC.

2.23 Standards recently adopted

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

On January 1, 2014, the Company adopted IFRIC 21 which 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 results of operations.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Comparative information

Goodwill was restated on the 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 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 on June 20, 2014.

2.25 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 will become effective January 1, 2018 and early adoption is permitted. Management 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 will become 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. Management is in the process of reviewing the standard to determine the impact on the Company's financial statements.

3. ACCOUNTS RECEIVABLE

	December 28, 2014	December 29, 2013
Trade, net of allowance for doubtful accounts	$ 195,934	$ 221,314
Other	16,191	9,001
	$ 212,125	$ 230,315

4. INVENTORIES

	December 28, 2014	December 29, 2013
Raw materials	$ 120,070	$ 108,166
Work in process	90,788	64,670
Finished goods	19,144	10,502
	$ 230,002	$ 183,338

	Fiscal 2014	Fiscal 2013
Cost of inventories recognized as expense and included in cost of sales	$ 1,262,781	$ 1,021,425
Write-down of inventory to net realizable value in cost of sales	3,077	1,682
Reversals of a previous write-down in inventory	335	—

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

5. PROPERTY, PLANT AND EQUIPMENT

	Land, building and building improvements	Machinery and equipment	Computer hardware and software	Office equipment	Demonstrator buses	Total
Cost	$ 16,500	$ 47,480	$ 17,130	$ 1,294	$ 3,452	$ 85,856
Accumulated depreciation	2,397	25,528	12,091	599	3,217	43,832
December 30, 2012 net book value	14,103	21,952	5,039	695	235	42,024
Additions (owned and leased)	2,915	8,142	2,530	655	2,265	16,507
Assumed on June 21, 2013 relating to NABI acquisition	4,300	10,236	405	242	375	15,558
Depreciation charge	(488)	(6,349)	(1,915)	(172)	(333)	(9,257)
December 29, 2013 net book value	20,830	33,981	6,059	1,420	2,542	64,832
Additions (owned and leased)	1,534	7,692	3,376	575	1,245	14,422
Depreciation charge	(857)	(11,042)	(2,511)	(440)	(481)	(15,331)
Impairment loss	—	(119)	—	—	—	(119)
December 28, 2014 net book value	$ 21,507	$ 30,512	$ 6,924	$ 1,555	$ 3,306	$ 63,804

	Land, building and building improvements	Machinery and equipment	Computer hardware and software	Office equipment	Demonstrator buses	Total
Recorded as:						
Cost	$ 23,715	$ 65,858	$ 20,065	$ 2,191	$ 6,092	$ 117,921
Accumulated depreciation	2,885	31,877	14,006	771	3,550	53,089
December 29, 2013 net book value	20,830	33,981	6,059	1,420	2,542	64,832
Cost	25,249	73,431	23,441	2,766	7,337	132,224
Accumulated depreciation	3,742	42,919	16,517	1,211	4,031	68,420
December 28, 2014 net book value	$ 21,507	$ 30,512	$ 6,924	$ 1,555	$ 3,306	$ 63,804

Bank borrowings are secured on all above tangible properties and assets.

The Company leases various machinery and computer hardware and software licenses under non-cancellable finance lease agreements (note 8). During Fiscal 2014 the Company had $3,798 (Fiscal 2013: $903) of additions to leased machinery and computer hardware. The Company is a lessee under finance leases for machinery and computer hardware and software licenses as follows (which amounts have been included in the preceding table):

	Machinery and equipment	Computer hardware and software	Total
Cost	$ 8,864	$ 7,084	$ 15,948
Accumulated depreciation	7,815	5,320	13,135
December 29, 2013 net book value	1,049	1,764	2,813
Cost	10,373	9,373	19,746
Accumulated depreciation	8,571	6,410	14,981
December 28, 2014 net book value	$ 1,802	$ 2,963	$ 4,765

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

6. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Trade names	Patents and Licenses	Customer relationships	Total
Cost	$ 202,168	$ 154,200	$ 100,505	$ 158,700	$ 615,573
Accumulated amortization	—	—	45,706	41,339	87,045
December 30, 2012 net book value	202,168	154,200	54,799	117,361	528,528
Additions	10,487	7,100	9,620	32,121	59,328
Amortization charge	—	—	(9,705)	(8,737)	(18,442)
December 29, 2013 net book value	212,655	161,300	54,714	140,745	569,414
Additions	—	—	227	—	227
Amortization charge	—	(137)	(10,921)	(9,407)	(20,465)
Impairment loss	—	(3,800)	(912)	—	(4,712)
December 28, 2014 net book value	$ 212,655	$ 157,363	$ 43,108	$ 131,338	$ 544,464
Recorded as:					
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
Cost	212,655	157,500	109,440	190,821	670,416
Accumulated amortization	—	137	66,332	59,483	125,952
December 28, 2014 net book value	$ 212,655	$ 157,363	$ 43,108	$ 131,338	$ 544,464

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 the NABI Bus models will be phased out, with the Anniston, Alabama facility expected to transition to the Xcelsior platform 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. These assets were used in the Company's bus manufacturing CGU. As well, the Company recorded an impairment of $912 due to management's fair value assessment of future cash flows related to a product license used in the aftermarket parts operations (excluding NABI Parts, LLC) CGU. The total impairment loss of $4,831 has been included in the consolidated statements of net earnings and comprehensive income.

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 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 change in accounting estimate had the estimated effect of increasing depreciation and amortization during Fiscal 2014 by $2,800 and is expected to increased depreciation and amortization during 2015 by $4,350.

The recoverable amount of the Company's CGUs is determined based on value-in-use calculations. These calculations use estimated cash flow projections based on financial plans approved by the board of directors of the Company (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 15% per annum for the bus manufacturing CGU and between 6% and 9% per annum for the aftermarket parts operations (excluding NABI Parts, LLC) and

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

6. GOODWILL AND INTANGIBLE ASSETS (Continued)

NABI Parts, LLC 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 CGUs.

Impairment may result if the following occur:

- the cash flow projections are lower by 11% annually,
- the average annual growth rate is decreased to 0.4%, or
- the discount rate is higher by at least 1.9%.

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.

Based upon historical operating results, management's forecasts and business plans, the "New Flyer" trade name was assigned an indefinite life. The fair value less cost to sell of the Company's trade name intangible asset is determined using a variation of the Income Approach known as the Relief from Royalty Method. The underlying concept for this methodology is that the Company owns its trade name as opposed to having a license to use it; the Company does not have to pay royalties for the use of its trade name on its own products and services. These royalties are usually expressed as a percentage of sales. The Relief from Royalty method is based on the premise that free cash flow is a more valid criterion for measuring value than "book" or accounting profits. Cash flows are based on an estimated royalty rate applied to management's projected revenue attributable to the trade name. The flows are summarized and discounted back to their net present value at an appropriate intangible asset rate of return in order to estimate the fair value of the trade name. The estimated royalty rate of 4.0% was applied to all the Company's projected revenues based upon comparable publicly reported trade name and trademark licensing data and specific qualitative factors. The cash flows were discounted at the risk adjusted weighted average cost of capital for the Company.

7. DEFERRED TAXES AND INCOME TAX EXPENSE

	December 28, 2014	December 29, 2013
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	$ 43,084	$ 43,422
Deferred tax asset to be recovered within 12 months	22,358	15,476
	65,442	58,898
Deferred tax liabilities:		
Deferred tax liability to be reversed after more than 12 months	(105,546)	(112,531)
Deferred tax liability to be reversed within 12 months	(6,126)	(5,893)
	(111,672)	(118,424)
	$ (46,230)	$ (59,526)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities 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.

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

7. DEFERRED TAXES AND INCOME TAX EXPENSE (Continued)

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

	December 28, 2014	December 29, 2013
As presented on statements of financial position:		
Deferred tax assets	$ 62,235	$ 55,290
Deferred tax liabilities	(108,465)	(114,816)
	$ (46,230)	$ (59,526)

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

	Fiscal 2014	Fiscal 2013
Beginning of period	$ (59,526)	$ (72,912)
Exchange differences	(1,974)	(1,705)
Tax recorded through net earnings	14,844	15,993
Tax recorded through other comprehensive loss	740	(940)
Benefit of loss carry forward and share issuance costs recognized against income taxes payable	(386)	(516)
Tax recorded through equity	72	554
End of period	$ (46,230)	$ (59,526)

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

Deferred tax liabilities	Property Plant and Equipment	Goodwill and Intangibles	Other	**Total**
December 30, 2012	$ (451)	$ (122,542)	$ (4,884)	$ (127,877)
Tax reversed through net earnings	237	6,002	3,214	9,453
December 29, 2013	(214)	(116,540)	(1,670)	(118,424)
Tax reversed through net earnings	162	5,966	624	6,752
December 28, 2014	$ (52)	$ (110,574)	$ (1,046)	$ (111,672)

Deferred tax assets	Provisions	Property Plant and Equipment	Pension	Deferred Financing Costs and Interest	Other	**Total**
December 30, 2012	$ 12,352	$ 14,710	$ 3,374	$ 14,529	$ 10,000	$ 54,965
Tax recovered (charged) through net earnings	(1,214)	(3,557)	(2,175)	5,597	7,889	6,540
Tax recovered through other comprehensive loss	—	—	(940)	—	—	(940)
Tax recorded through equity	—	—	—	554	—	554
Benefit of loss carry forward and share issuance costs recognized against income taxes payable	—	—	—	(516)	—	(516)
Exchange differences	(390)	(465)	(173)	(459)	(218)	(1,705)
December 29, 2013	10,748	10,688	86	19,705	17,671	58,898
Tax recovered (charged) through net earnings	9,977	360	(438)	(13,572)	11,765	8,092
Tax recovered through other comprehensive loss	—	—	740	—	—	740
Tax recorded through equity	—	—	—	—	72	72
Benefit of loss carry forward and share issuance costs recognized against income taxes payable	—	—	—	(386)	—	(386)
Exchange differences	(370)	(368)	(3)	(678)	(555)	(1,974)
December 28, 2014	$ 20,355	$ 10,680	$ 385	$ 5,069	$ 28,953	$ 65,442

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

7. DEFERRED TAXES AND INCOME TAX EXPENSE (Continued)

Deferred income tax assets are recognized for income tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company has an income tax loss carry-forward of $275 which will more likely than not be applied against future taxable income and therefore a related deferred tax asset has been recorded.

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

	Fiscal 2014	Fiscal 2013
Earnings before income tax expense	$ 37,568	$ 34,617
Tax calculated using a 35% U.S. tax rate	13,149	12,116
Tax effect of:		
Withholding and other taxes	1,237	819
Non-deductible expenses (non-taxable income)	(1,208)	(1,693)
Revision of tax estimates	927	657
Foreign exchange impact	(3,000)	(3,083)
State taxes	993	650
Rate differential on income taxed at other than U.S. statutory rate	(1,262)	(1,507)
Other	13	(103)
Income tax expense for the period	$ 10,849	$ 7,856

	Fiscal 2014	Fiscal 2013
Current income taxes for the period	$ 25,691	$ 23,849
Deferred income taxes recovered for the period	(14,842)	(15,993)
Income tax expense for the period	$ 10,849	$ 7,856

8. OBLIGATIONS UNDER FINANCE LEASES

The Company has entered into finance leases for equipment, computer hardware and software licenses, with an imputed weighted average interest rate of 4.98% based on individual lease rates ranging between 2.3% and 9.1%, expiring between 2015 and 2019. The following is a schedule of future minimum lease payments, together with the balance of the obligation under the finance leases as at December 28, 2014:

2015	$ 1,854
2016	1,711
2017	1,049
2018	388
2019	77
	5,079
Less: Amounts representing interest	303
	4,776
Less: Current portion	1,551
	$ 3,225

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

9. DEFERRED COMPENSATION OBLIGATION

	December 28, 2014	December 29, 2013
Performance share unit plan (officers and senior management)	$ 5,299	$ 290
Restricted share unit plan (officers and senior management)	2,991	1,300
Deferred share unit plan (non-employee board of directors)	739	331
	9,029	1,921
Less: current portion	6,090	258
	$ 2,939	$ 1,663

The Performance and Restricted Share Unit Plan (the "PRSU Plan") provides for grants of restricted share units ("RSUs") and performance share units ("PSUs") to officers and senior managers of the Company. An RSU is the right to receive a cash payment based on the fair market value of a Share. RSUs granted in Fiscal 2014 and Fiscal 2013 will generally vest one third on each of the first, second and third anniversaries of the grant date. The Board approved a special off-cycle grant of RSUs in Fiscal 2013. These RSUs will vest over two years, half on each of the first and second anniversaries of the grant date. Following the time of vesting, participants will be entitled to receive cash redemption payments equal to the fair market value of a Share for every vested unit held. RSUs shall also immediately vest upon the closing of a transaction resulting in certain change of control events and upon certain terminations of employment. RSUs granted in Fiscal 2014 were determined based on the weighted average trading price of a Share for the last five trading days of 2013 and the desired compensation value.

PSUs generally vest at the end of the third fiscal year following the date of grant, depending on the position and subject to and based on the Company achieving certain specified performance targets. The number of PSUs granted in Fiscal 2014 were determined based on the weighted average trading price of a Share for the last five trading days of 2013 and the desired target compensation value.

The purpose of the PRSU Plan is to attract, retain, motivate and reward officers and senior managers of the Company by making a significant portion of their long term incentive compensation dependent on the Company's financial performance. One of the key advantages of the PRSU Plan is that it will further align the interests of management and investors given that the award grant and redemption values will be determined based on the fair market value of the Shares and on the Company's long-term financial performance. Under the terms of the PRSU Plan, the Company may grant eligible participants each year unit grants which give the holders thereof the right to receive, upon vesting and redemption of units, a cash payment equal to the fair market value of a Share. When dividends are paid on a Share, additional units equivalent to the amount of the dividends multiplied by the number of units held (and determined based on the then fair market value of the Shares) will be credited to the participant's account.

As well, the Board adopted NFI's Deferred Share Unit Plan for Non-Employee Directors effective January 1, 2012. Pursuant to the plan, non-management directors may elect once each calendar year to receive all or a portion of their annual retainer and meeting fees in the form of deferred share units ("DSUs") instead of cash. A DSU is the right to receive a cash payment based on the value of a Share credited by means of a bookkeeping entry to an account in the name of the non-employee director. DSUs are credited to the director's account on the last day of each calendar quarter, the number of which is determined by dividing the amount of the applicable portion of the director's elected amount by the fair market value of a Share on that date. When dividends are paid on a Share, additional DSUs equivalent to the amount of the dividend multiplied by the number of DSUs held (and determined based on the then fair market value of the Shares) will be credited to the director's account. DSUs are fully vested on issue. At the end of the director's tenure as a member of the Board, he or she will be entitled to receive a cash redemption payment equal to the fair market value of a Share multiplied by the number of DSUs held.

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

9. DEFERRED COMPENSATION OBLIGATION (Continued)

	PSUs	RSUs	DSUs	Total
Units outstanding at December 30, 2012	701,744	133,024	15,169	849,937
Units granted	148,212	157,251	17,094	322,557
Distribution units granted	49,200	11,951	1,239	62,390
Units expired	(320,246)	—	—	(320,246)
Vested and reclassed as current liability	—	(26,111)	—	(26,111)
Units outstanding at December 29, 2013	578,910	276,115	33,502	888,527
Units granted	166,546	83,273	30,899	280,718
Distribution units granted	28,997	17,698	2,077	48,772
Units expired	(170,575)	—	—	(170,575)
Vested and reclassed as current liability	(272,465)	(247,821)	—	(520,286)
Units outstanding at December 28, 2014	331,413	129,265	66,478	527,156
Vested units	—	—	(66,478)	(66,478)
Unvested units	331,413	129,265	—	460,678

10. LONG-TERM DEBT

	Final Maturity	Face Value	Unamortized Transaction Costs	**Net Book Value December 28, 2014**	Net Book Value December 29, 2013
Term Credit Facility	April 2017	$ 142,000	$ 1,253	$ 140,747	$ 140,241
Revolving Credit Facility (“Revolver”)	April 2017	40,000	—	40,000	35,000
		182,000	1,253	180,747	175,241
Less: current portion of long-term debt		40,000	—	40,000	35,000
		$ 142,000	$ 1,253	$ 140,747	$ 140,241

The Company’s fourth amended and restated credit agreement (the “Credit Facility”) has a total borrowing limit of $257.0 million. Under the Credit Facility 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 $19.3 million of outstanding letters of credit were drawn at December 28, 2014. Under the Credit Facility the borrowing limit of the term facility (the “Term Credit Facility”) is $142.0 million. The Credit Facility also includes an accordion feature of $75.0 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.

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

11. CONVERTIBLE DEBENTURES

On June 5, 2012, the Company completed a public offering of $65,000 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.

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.

Principal amounts of $362 of Debentures were converted to Shares during the Fiscal 2014, resulting in a total principal amount of $64,638 Debentures outstanding at December 28, 2014.

	Debenture liability component	Equity component of Debenture	**Net Book Value December 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	4,096	—	4,096	2,373
Conversion of Debentures to Shares	(331)	(21)	(352)	—
Net book value	$ 59,714	$ 3,820	$ 63,534	$ 62,163

(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	Exercised	Vested	Unvested	Expiry date	Exercise price	Fair Value at grant date
Granted on March 26, 2013	490,356	(2,500)	(120,090)	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
Granted on December 28, 2014	499,974	—	—	499,974	December 28, 2022	C$13.45	C$1.83
	1,602,380	(2,500)	(120,090)	1,479,790		C$11.36	

The following reconciles the stock options outstanding:

	Fiscal 2014		Fiscal 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	1,112,024	C$11.86	490,356	C$10.20
Exercised during the period	(2,500)	C$10.20	—	—
Balance at end of period	1,599,880	C$11.36	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.

Fair values were measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values of the share-based payment plans granted are the following:

Options granted on December 28, 2014	Options granted on December 30, 2013
• Fair value at 2015 grant date C$1.83	• Fair value at 2014 grant date C$1.44
• Share price C$13.45	• Share price C$10.57
• Exercise price C$13.45	• Exercise price C$10.57
• Expected volatility 25.1%	• Expected volatility 27.9%
• Option life (expected weighted average life) 5.5 years	• Option life (expected weighted average life) 5.5 years
• Expected dividends 4.35%	• Expected dividends 5.53%
• Risk-free interest rate (based on government bonds) 1.39%	• Risk-free interest rate (based on government bonds) 1.59%

On May 8, 2014, shareholders' approved the Company's Restricted Share Unit Plan for Non-Employee Directors (the "Director RSU Plan"). A maximum of 500,000 Shares are reserved for issuance under the Director RSU Plan. Pursuant to the Director RSU Plan, non-employee directors are permitted to elect, once each calendar year, to receive all or a portion of their annual retainer in the form of Director RSUs and/or DSUs instead of cash. A Director RSU is a right to acquire a fully-paid and non-assessable Share credited by means of a bookkeeping entry to an account in the name of the non-employee director. A director generally must make the election prior to the end of the calendar year preceding the year to which such election is to apply. The Board, in its sole discretion, may award additional Director RSUs, subject to an annual aggregate value of $150,000 per director. The number of Director RSUs to be awarded to a director is determined by dividing the amount of the applicable portion of the director's annual retainer by the applicable fair market value of a Share on that date. When dividends are paid on a Share, additional Director RSUs equivalent to the aggregate number of Director RSUs held by a director on the dividend record date multiplied by the amount of dividend paid by NFI on each Share, and then divided by the fair market value of the Shares on the dividend payment date, will automatically be credited to the director's account. Under the Director RSU Plan, Director RSUs vest immediately as at each applicable award date. A director (other than a U.S. director) will be permitted to exercise the Director RSUs credited to his or her account at any time prior to

12. SHARE-BASED COMPENSATION (Continued)

December 15 of the year following the year in which the director ceases to be a non-employee director of NFI or one of its affiliates. A U.S. director will be required to specify the exercise date in an annual election form in accordance with Section 409A of the U.S. Internal Revenue Code. No Director RSUs were issued in Fiscal 2014.

13. DEFERRED REVENUE

	December 28, 2014	December 29, 2013
Extended warranties (note 24)	$ 17,817	$ 18,074
Progress payments	28,106	56,922
	45,923	74,996
Less: current portion of deferred revenue	(40,805)	(57,614)
	$ 5,118	$ 17,382

Deferred revenue is comprised of progress payments that have not yet qualified for recognition as revenue under the Company's revenue recognition policies and also deferred revenue from the sale of extended warranty contracts which are amortized over the extended warranty period commencing at the end of the one-year basic warranty period.

14. SHARE CAPITAL

Authorized			
Unlimited	Common Shares		
Issued		**December 28, 2014**	December 29, 2013
55,505,604	Common Shares (December 29, 2013: 55,466,904)	$ 589,586	$ 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	37	352
Balance - December 28, 2014	55,506	$ 589,586

The dividends declared in Fiscal 2014 and Fiscal 2013 were $29,333 ($0.53 per Share) and $29,647 ($0.57 per Share) respectively. Dividends of $6,492 ($0.12 per Share) were proposed or declared after December 28, 2014 but prior to the Statements being authorized for issue. The Statements do not reflect this dividend payable.

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

15. EARNINGS PER SHARE

	Fiscal 2014	Fiscal 2013
Net earnings attributable to equity holders	$ 26,719	$ 26,761
Weighted average number of Shares in issue	55,481,718	51,929,357
Net incremental shares from assumed conversion of stock options	163,796	22,094
Weighted average number of Shares for diluted earnings per Share	55,645,514	51,951,451
Net earnings per Share (basic)	$ 0.4816	$ 0.5153
Net earnings per Share (diluted)	$ 0.4801	$ 0.5151

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 6,463,800 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.

16. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	Fiscal 2014	Fiscal 2013
Accounts receivable	$ 18,190	$ (63,339)
Income tax receivable	(778)	—
Inventories	(46,664)	15,907
Prepaid expenses and deposits	3,265	(2,146)
Accounts payable and accrued liabilities	19,585	(2,756)
Income taxes payable	(504)	(6,252)
Deferred revenue	(29,073)	45,012
Provisions	6,228	(9,414)
Other	(5,504)	—
	$ (35,255)	$ (22,988)

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

17. ACCRUED BENEFIT LIABILITY

Defined benefit plan

The Company's subsidiary, NFI ULC, has a defined benefit plan which covers unionized employees in Canada. An actuarial valuation was last performed as at December 31, 2013. The next compulsory actuarial valuation date is December 31, 2016.

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

	December 28, 2014	December 29, 2013
Change in plan assets		
Plan assets at fair value — beginning of period	$ 47,169	$ 41,823
Interest income	2,174	1,919
Remeasurement gain - return on plan assets (excluding amounts in net interest expense)	4,127	2,296
Administrative expenses	(128)	(141)
Employer's contributions	3,529	8,714
Benefits paid	(3,357)	(4,229)
Foreign exchange	(4,051)	(3,213)
Plan assets at fair value — end of period	49,463	47,169
Change in defined benefit obligation		
Accrued benefit obligation — beginning of period	47,397	50,796
Current service cost	2,536	2,359
Interest cost	2,104	2,117
Benefits paid	(3,357)	(4,229)
Foreign exchange	(4,106)	(3,513)
Actuarial (gains) losses arising from changes in demographic assumptions	(334)	1,394
Actuarial losses (gains) arising from changes in financial assumptions	6,198	(1,812)
Actuarial losses arising from experience adjustments assumptions	51	285
Defined benefit obligation — end of period	50,489	47,397
Accrued benefit liability - present value of unfunded obligations	$ (1,026)	$ (228)

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

	Fiscal 2014	Fiscal 2013
Discount rate	4.00%	4.75%
Mortality tables	CPM2014 Private Scale B with size adjustment	90% of UP94 Generational with Scale AA

If the discount rate decreased by 1% from the 4.00% discount rate used at December 28, 2014, the defined benefit obligation would increase by approximately 19.3%. Similarly, if the discount rate increased 1%, then the obligation would decrease approximately 15.1%.

If the life expectancy increased by one year from the CPM2014 Private Scale B with size adjustment mortality tables used at December 28, 2014, the defined benefit obligation would increase by approximately 2.5%. Similarly, if the life expectancy decreased by one year from the CPM2014 Private Scale B with size adjustment mortality tables, then the obligation would decrease approximately 2.5%.

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

17. ACCRUED BENEFIT LIABILITY (Continued)

The defined benefit plan typically exposes the Company to actuarial risks such as: investment risk, interest rate risk and longevity risk.

Investment risk

The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan assets is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity securities and debt instruments. Due to the long-term nature of the plan liabilities, the pension committee considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities to leverage the return generated by the fund.

Interest rate risk

A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.

Longevity risk

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

The actual return on the plan assets for Fiscal 2014 was $6,301 (Fiscal 2013: $4,215).

The Company's defined benefit plan is a fixed benefit plan and, as a result, the rate of compensation increases does not have any impact on the actuarially determined accrued benefit liability. Expected contributions to the defined benefit plan for the 52-week period ending December 27, 2015 are $3,270.

The Company's defined benefit pension plan expense, included in cost of sales is as follows:

		Fiscal 2014		Fiscal 2013
Current service costs	$	2,536	$	2,359
Net interest expense		(70)		198
Administrative expenses		129		141
Foreign exchange		—		80
Components of defined benefit costs recognized in net earnings		2,595		2,778

The net actuarial losses (gain) on defined benefit pension recognized in other comprehensive income is as follows:

		Fiscal 2014		Fiscal 2013
Return on plan assets (excluding amounts included in net interest expense)	$	(4,127)	$	(2,296)
Actuarial (gains) losses arising from changes in demographic assumptions		(334)		1,394
Actuarial losses (gains) arising from changes in financial assumptions		6,198		(1,812)
Actuarial losses arising from experience adjustments assumptions		51		285
		1,788		(2,429)
Deferred income taxes recorded through other comprehensive loss or income		(740)		940
Net actuarial losses (gain) recognized in other comprehensive loss or income	$	1,048	$	(1,489)

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

17. ACCRUED BENEFIT LIABILITY (Continued)

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

	December 28, 2014	December 29, 2013
Asset category		
Canadian equities	21.8%	21.1%
Foreign equities	27.2%	31.9%
Bonds	51.0%	47.0%
	100.0%	100.0%

18. EMPLOYEE BENEFITS

Defined contribution pension plans

In the United States, the Company maintains two savings retirement plans (401(k) plans). In Canada, the Company maintains a defined contribution plan for salaried employees. The net pension expense for the Company's defined contribution plans is as follows:

	Fiscal 2014	Fiscal 2013
Defined contribution pension expense	$ 2,577	$ 2,229

Cash payments contributed by the Company during Fiscal 2014 for its defined benefit and defined contribution pension plans amounted to $6,106 (2013: $10,943).

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Financial Instruments

The Company has made the following classifications:

Cash	Loans and receivables
Accounts receivable	Loans and receivables
Deposits	Loans and receivables
Accounts payables and accrued liabilities	Other Liabilities
Convertible debentures	Other Liabilities
Other long-term liabilities	Other Liabilities
Long-term debt	Other Liabilities
Derivative financial instruments	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.

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

19. 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.

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

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

Convertible debentures - The fair values for disclosure purposes have been estimated using public market data inputs such as the market price of the convertible debentures.

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.

	December 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	$ 689	$ 689
Financial liabilities recorded at fair value			
Derivative financial instrument liabilities			
Interest rate swap	Level 2	$ 1,733	$ 1,733
Financial liabilities recorded at amortized cost			
Debentures (including equity conversion option)	Level 2	$ 63,534	$ 73,836

	December 29, 2013		
	Fair value level	Carrying amount	Fair value
Financial liabilities recorded at fair value			
Derivative financial instrument liabilities			
Foreign exchange forward contracts	Level 2	$ 740	$ 740
Interest rate swap	Level 2	2,508	2,508
Financial liabilities recorded at amortized cost			
Convertible debentures (including equity conversion option)	Level 2	$ 62,163	$ 71,012

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) Risk Management

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

Market risk (interest rate risk and foreign currency risk)

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

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

Interest rate risk

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

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 December 28, 2014 is $1,733 (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.

The interest rate swap is subject to interest rate risk. As an illustration, if interest rates at the consolidated statements of financial position date had been 100 basis points lower, with all other variables held constant, net earnings and comprehensive income for Fiscal 2014 would have been higher by $2,072 (Fiscal 2013: $2,869), arising mainly as a result of the related fair value adjustment recorded due to lower interest rate. If interest rates had been 100 basis points higher, with all other variables held constant, net earnings and comprehensive income for Fiscal 2014 would have been lower by $2,127 (Fiscal 2013: $2,977), arising mainly as a result of the related fair value adjustment recorded due to higher interest rate.

Foreign currency risk

The United States dollar is the Company's functional currency. Fluctuations in the exchange rate between the United States dollar and Canadian dollar will affect the Company's reported results. However, the impact of changes in foreign exchange rates on the Company's reported results differ over time depending on whether the Company is generating a net cash inflow or outflow of Canadian dollars. This is largely dependent on the Company's revenue mix by currency as operating costs denominated in Canadian dollars have been relatively stable. During Fiscal 2014, the Company generated a net inflow of Canadian dollars. As a matter of policy, the Company enters into foreign exchange forward contracts to protect the expected net Canadian dollar exposure from exchange fluctuation.

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

During Fiscal 2014, the Company recorded realized foreign exchange loss of $1,547 (Fiscal 2013: $118). This was comprised of a $1,811 loss on settlement of foreign exchange contracts and a $264 foreign currency gain on translation of Canadian dollar denominated operations and dividends.

At December 28, 2014, the Company had $2.8 million of foreign exchange forward contracts to buy Canadian dollars and contracts to buy $0.2 million of British pounds. The foreign exchange forward contracts range in expiry dates from January 2015 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 $689 (Fiscal 2013: $740 liability) is recorded on the 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 has been recorded in the consolidated statements of net earnings and comprehensive income.

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk, primarily Canadian dollar balances. As an illustration, at December 28, 2014, if the Canadian dollar had weakened 10 percent against the U.S. dollar, with all other variables held constant, net earnings for Fiscal 2014 would have been higher by $1,651 (Fiscal 2013: $661). Conversely, if the Canadian dollar had strengthened 10 percent against the U.S. dollar, with all other variables held constant, net earnings would have been lower by $2,018 for Fiscal 2014 (Fiscal 2013: $808).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. Financial liabilities consist of accounts payable and accrued liabilities, obligations under finance leases, convertible debentures, long-term debt and derivative financial instruments. Accounts payable and accrued liabilities are paid in the normal course of business and except under certain exceptions, no later than three months of being incurred.

The following table outlines the Company's maturity analysis of the undiscounted cash flows of certain non-current financial liabilities and leases as at December 28, 2014:

US dollars in thousands	Total	2015	2016	2017	2018	2019	Post 2019
Senior term loan	$ 153,250	$ 5,000	$ 5,000	$ 143,250	$ —	$ —	$ —
Convertible debentures	74,763	4,050	4,050	66,663	—	—	—
Other long-term liabilities	7,250	3,000	2,250	1,000	1,000	—	—
Finance leases	5,079	1,854	1,711	1,049	388	77	—
Accrued benefit liability	3,270	3,270	—	—	—	—	—
Operating leases	46,563	5,498	5,348	5,426	5,474	4,584	20,233
	$ 290,175	$ 22,672	$ 18,359	$ 217,388	$ 6,862	$ 4,661	$ 20,233

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 December 28, 2014, the Company had a cash balance of $17,456 (December 29, 2013: $11,896) and the $115,000 Revolver. As at December 28, 2014, there were $40,000 of direct borrowings (December 29, 2013: $35,000) and $19,337 of outstanding letters of credit (December 29, 2013: $22,681) under the Revolver.

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

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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.

Credit risk

Financial instruments which potentially subject the Company to credit risk and concentrations of credit risk consist principally of cash, accounts receivable and derivative financial instruments. 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 come from the U.S. Federal Transit Administration, while the remaining 20% comes from state and municipal sources. The maximum exposure to the risk of credit for accounts receivable corresponds to their book value. Historically, the Company has experienced nominal bad debts as a result of the customer base being principally comprised of municipal and other local transit authorities.

During Fiscal 2014, the Company recorded a bad debt expense of $128 as compared to $136 bad debt expense in Fiscal 2013.

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 consolidated statements of net earnings and 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 consolidated statements of net earnings and comprehensive income.

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

	December 28, 2014	December 29, 2013
Current, including holdbacks	$ 197,441	$ 213,101
Past due amounts but not impaired		
1 – 60 days	14,200	16,370
Greater than 60 days	746	1,270
Less: Allowance for doubtful accounts	(262)	(426)
Total accounts receivables, net	$ 212,125	$ 230,315

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

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

(d) Capital management

The Company's objectives in managing capital are to deploy capital to provide an appropriate return to shareholders and to maintain a capital structure that provides the flexibility to take advantage of growth and development opportunities, maintain existing assets, meet financial obligations and enhance the value of the Shares. The capital structure of the Company consists of cash, convertible debentures, long-term debt, other long-term liabilities and shareholders' equity. The Company manages capital to ensure an appropriate balance between debt and equity.

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

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

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. Per the Credit Facility the Debentures are treated as equity for purposes of calculating the total leverage ratio. At December 28, 2014, the Company was in compliance with the ratios. The results of the financial covenants tests as of such date are as follows:

	December 28, 2014	December 29, 2013
Total Leverage Ratio (must be less than 3.25)	1.65	1.67
Interest Coverage Ratio (must be greater than 3.00)	8.65	9.21

Compliance with financial covenants is reported quarterly to the Board. 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 or when strategic capital transactions arise.

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

There is no inter-segment revenue. Unallocated items in the consolidated earnings before income taxes primarily include unrealized foreign exchange gains or losses and finance costs. Corporate overhead costs are allocated fully to the Bus Operations segment.

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:

	Fiscal 2014			
	Bus Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 1,132,066	$ 319,034	$ —	$ 1,451,100
Operating costs and expenses	1,126,146	274,334	—	1,400,480
Earnings (loss) before income tax expense	5,920	44,700	(13,052)	37,568
Total assets	541,817	221,193	373,105	1,136,115
Addition of capital expenditures	10,177	485	—	10,662
Addition of goodwill and intangibles assets	47	180	—	227
Goodwill	149,950	62,705	—	212,655

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

20. SEGMENT INFORMATION (Continued)

	Fiscal 2013			
	Bus Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 984,359	$ 215,065	$ —	$ 1,199,424
Operating costs and expenses	957,127	191,188	—	1,148,315
Earnings (loss) before income tax expense	27,232	23,877	(16,492)	34,617
Total assets	556,505	202,765	377,132	1,136,402
Addition of capital expenditures	13,389	2,050	—	15,439
Addition of goodwill and intangibles assets	8,568	50,760	—	59,328
Goodwill	149,950	62,705	—	212,655

The allocation of revenue to geographic areas is as follows:

	Fiscal 2014	Fiscal 2013
United States	$ 1,225,557	$ 1,011,912
Canada	225,543	187,512
Total	$ 1,451,100	$ 1,199,424

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

	December 28, 2014	December 29, 2013
United States	$ 30,430	$ 30,696
Canada	33,374	34,136
Total	$ 63,804	$ 64,832

The Company had revenue from one customer that was individually greater than 10% of the Company's revenue as follows:

	Fiscal 2014	Fiscal 2013
Customer A	$ 207,370	$ —

The revenue from this customer principally consists of revenue from the Bus Operations segment.

21. RELATED PARTY TRANSACTIONS

Included in accounts payable and accrued liabilities were $127 (Fiscal 2013: $153) relating to directors fees paid subsequent to December 28, 2014.

Compensation of key management

Key management includes the roles of the Board, President and CEO, the CFO, executive vice presidents and vice presidents. The compensation expense for key management for employee services is shown below:

	Fiscal 2014	Fiscal 2013
Salaries and short term employee benefits	$ 8,190	$ 8,082
Post-employment benefits	267	274
Share-based payment benefits	8,480	1,083
	$ 16,937	$ 9,439

Share-based payment benefits shown above represent the PSU, RSU, DSU and stock option expense that was recorded in the period.

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

22. COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitments

The Company has leased real property with aggregate minimum lease payments of $46,563 (Fiscal 2013: $48,299) payable as follows:

2015	$	5,498
2016		5,348
2017		5,426
2018		5,474
2019		4,584
Thereafter		20,233
	$	46,563

(b) In the normal course of business, the Company receives notice of potential legal proceedings or is named as a defendant in legal proceedings, including those that may be related to product liability, wrongful dismissal or personal injury. Many claims are covered by the Company's insurance policies and management does not expect any of the current claims to have a material adverse effect on the Company's financial position, results of operations or cash flows.

(c) Through the normal course of operations, the Company has indemnified the surety companies providing surety bonds required under various contracts with customers. In the event that the Company fails to perform under a contract and the surety companies incur a cost on a surety bond, the Company is obligated to repay the costs incurred in relation to the claim up to the value of the bond. The Company's guarantee under each bond issued by the surety companies expires on completion of obligations under the customer contract to which the bond relates. The estimated maturity dates of the surety bonds outstanding at December 28, 2014 range from January 2015 to October 2016.

At December 28, 2014, outstanding surety bonds guaranteed by the Company totaled $158,138 (Fiscal 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.

(d) The Company has a letter of credit sub-facility of $55,000 as part of the $115,000 Revolver. As at December 28, 2014, letters of credit totaling $19,337 (December 29, 2013: $22,681) remain outstanding under the letter of credit facility as security for the following contractual obligations of the Company:

		December 28, 2014		December 29, 2013
Collateral to secure operating facility leases	$	296	$	290
Customer performance guarantees		15,886		19,728
Collateral in support of self-insured workers compensation and general liability obligations		3,155		2,663
	$	19,337	$	22,681

As at December 28, 2014, management believes that the Company was 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.

23. GUARANTEES

The Company indemnifies its directors and officers against claims and damages that may be incurred in the performance of their services to the Company. Liability insurance has been purchased with respect to the Company's directors and officers.

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

24. PROVISIONS 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 contract.

The movements in the provision for the base warranty costs during the periods are as follows:

December 30, 2012	$	7,472
Additions		29,600
Assumed on June 21, 2013 relating to NABI acquisition		15,410
Amounts used/realized		(26,355)
Unwinding of discount and effect of changes in the discount rate		(4)
Exchange differences		(21)
December 29, 2013	$	26,102
Additions		27,817
Amounts used/realized		(20,997)
Unwinding of discount and effect of changes in the discount rate		(232)
Exchange differences		(360)
December 28, 2014	$	32,330

25. SUPPLEMENTARY EXPENSE INFORMATION

		Fiscal 2014		Fiscal 2013
Employee benefit expense	$	188,136	$	169,025
Depreciation of plant and equipment		15,372		9,559
Amortization of intangible assets		20,465		18,442

The expenses listed above are included in cost of sales and sales, general and administration costs and other operating expenses.