May 12, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 14-WEEKS ENDED APRIL 3, 2016

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 unaudited interim condensed consolidated financial statements (including notes) (the "Financial Statements") for the 14-week period ended April 3, 2016 ("2016 Q1"). This MD&A contains forward‑looking statements, which are subject to a variety of factors that could cause actual results to differ materially from those contemplated by 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, which is 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 the "Company" are to NFI and all of its direct or indirect subsidiaries, including New Flyer Industries Canada ULC ("NFI ULC"), New Flyer of America Inc. ("NFAI"), NABI Parts, LLC ("NABI Parts"), TCB Enterprises, LLC ("TCB") and Motor Coach Industries International, Inc. and its affiliated entities ("collectively, MCI"). References to "New Flyer" generally refer to NFI ULC, NFAI, NABI Parts and TCB. 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 April 3, 2016, 59,693,433 Shares and approximately $26.2 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.

A "motor coach" or "coach" is a 40-foot or 45-foot over-the-highway bus typically used for intercity transportation and longer distances than heavy-duty transit buses, and is typically characterized by (i) two axles in the rear (which allows higher speeds), (ii) high deck floor, (iii) baggage compartment under the floor, (iv) high-backed seats with a coach-style interior (often including a lavatory and underfloor baggage compartments), and (v) no room for standing passengers.

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

Forward‑looking Statements

Certain statements in this MD&A are "forward‑looking statements", which reflect the expectations of management regarding NFI's 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 transit buses and coaches 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 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 which 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"), equity settled stock-based compensation, past service costs, loss on derecognition of long-term debt, fair value adjustment to MCI's inventory 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, past service cost, 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, fair value adjustment to MCI's inventory 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 and Adjusted EBITDA should not be construed as an alternative to net earnings or loss determined in accordance with IFRS as an indicator of NFI's performance, and Free Cash Flow should not be construed as an alternative to cash flows from operating, investing and financing activities determined in accordance with IFRS as a measure of liquidity and cash flows. A reconciliation of net earnings and cash flows 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

The Company is the largest transit bus and motor coach manufacturer and parts distributor in North America with fabrication, manufacturing, distribution and service centers in Canada and the United States and employs approximately 5,000 team members.

Through its Canadian and U.S. subsidiaries, NFI ULC and NFAI, the Company is North America's heavy-duty transit bus leader and offers a high quality transit bus product line (Xcelsior® and MiDi® models), incorporating the broadest range of drive systems available, including: clean diesel, natural gas, diesel-electric hybrid, electric-trolley and now battery-electric. New Flyer actively supports over 42,000 heavy-duty transit buses (New Flyer, NABI and Orion) currently in service.

Through its Canadian and U.S. subsidiaries, Motor Coach Industries Limited and Motor Coach Industries, Inc., the Company is North America's leader in motor coaches, MCI offers a J-model which is the industry's best-selling intercity coach for 11 consecutive years, and the D-model, the industry's best-selling coach line in North American motor coach history. MCI is also the exclusive distributor of the Setra S417 and S407 in the United States and Canada. MCI actively supports over 28,000 MCI motor coaches currently in service and offers 24-hour roadside assistance 365 days a year.

The Company also operates North America's most comprehensive aftermarket parts organization providing support for all types of transit buses and motor coaches. All transit buses and coaches are supported by an industry-leading comprehensive warranty, service and support network.

2016 First Quarter in Review

Demand for Heavy-Duty Transit Buses and Motor Coaches

The Company's Bid Universe metric reports active public competitions in Canada and the United States and provides an overall indication of expected heavy-duty transit bus and motor coach market demand. It is a point-in-time snapshot of: (i) EUs in active competitions, defined as all requests for proposals ("RFPs") received and in process of review plus bids submitted and awaiting customer action, and (ii) management's forecast of all expected EUs to be placed out for competition over the next five years.

While procurement of transit buses and coaches by the public sector is typically accomplished through formal multi-year contracts, procurement of transit buses and coaches by the private sector is typically accomplished through transactional sales of small orders of vehicles. As a result, the Company is unable to develop longer range forecasts for private sector tranist buses and coaches.

Period	Bids in Process (EUs)	Bids Submitted (EUs)	Active EUs	Forecasted Industry Procurement over 5 Years (EUs)(1)	Total Bid Universe (EUs)
2015 Q1*	4,177	2,890	7,067	12,314	19,381
2015 Q2*	1,690	5,881	7,571	13,127	20,698
2015 Q3*	2,121	4,074	6,195	13,225	19,420
2015 Q4*	763	6,442	7,205	13,409	20,614
2016 Q1	**1,750**	**5,536**	**7,286**	**15,632**	**22,918**

* New Flyer Bid Universe only (excludes MCI)

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

The total number of active EUs at the end of 2016 Q1 was 7,286 EUs, which is an increase of 81 EUs over the previous quarter, largely as a result of the consolidation of the New Flyer and MCI sales activity. The number of EUs in the total Bid Universe at April 3, 2016 was 22,918 EUs, which is an increase of 2,304 EUs compared to the total bid universe at December 27, 2015.

Management continues to anticipate that transit bus and coach procurement activity by public transit agencies throughout the U.S. and Canada to remain robust based on expected customer fleet replacement plans and active or anticipated procurements.

Management also anticipates stable private sector demand for motor coaches throughout 2016 given the stability of main market dynamics, including the general economy, travel trends and credit markets. A bid universe does not exist for the private sector as the sales process is largely transactional in nature.

Transit bus and coach order activity during 2016 Q1

New orders (firm and options) during 2016 Q1 totaled 1,059 EUs. The new firm and option orders awarded to the Company for the last twelve months ended April 3, 2016 ("2016 Q1 LTM") were 3,968 EUs compared to 2,930 EUs during the last twelve months ended March 29, 2015 ("2015 Q1 LTM"). Also, the Company was successful at converting 582 EUs of options during 2016 Q1, which contributed to the 1,764 EUs of options converted in 2016 Q1 LTM as compared to 800 EUs during 2015 Q1 LTM. In the chart below "LTM" refers to the 12-month period ended at the end of the specified period.

	New Orders in Quarter (Firm and Option EUs)	LTM New Orders (Firm and Option EUs)	Option Conversions in Quarter (EUs)	LTM Option Conversions (EUs)
2015 Q1*	1,020	2,930	157	800
2015 Q2*	531	2,985	546	1,225
2015 Q3*	1,133	4,009	213	1,079
2015 Q4	1,245	3,929	423	1,339
2016 Q1	**1,059**	**3,968**	**582**	**1,764**

* New Flyer order activity only (excludes MCI)

There were 176 option EUs that expired during 2016 Q1 as compared to zero option EUs that expired during the 13-week period ended March 29, 2015 ("2015 Q1").

In addition to contracts for defined customers, New Flyer has focused on state procurements and cooperative purchasing agreements, with the objective of having available schedules from which customers within a prescribed region can purchase. New Flyer has successfully bid and been named on several state contracts. These contracts, however, are not recorded in backlog as they do not have defined quantities allocated to New Flyer.

At the end of 2016 Q1, the Company's total backlog (firm and options) of 9,718 EUs (valued at $5.03 billion) increased compared to 9,664 EUs (valued at $4.95 billion) at the end of the 13-week period ended December 27, 2015 ('2015 Q4") and 7,193 EUs (valued at $3.57 billion) at the end of 2015 Q1 primarily as a result of acquiring MCI's backlog of 2,127 EUs (valued at $1.10 billion) on December 18, 2015.

The Company's 2016 Q1 LTM Book-to-Bill ratio (defined as new firm and option orders divided by new transit bus and coach deliveries) was 147% as compared to 119% during 2015 Q1 LTM. The Company's LTM Book-to-Bill ratio has exceeded 100% for twelve of the last thirteen quarters. A ratio above 100% implies that more orders were received than filled, indicating increasing demand for the Company's products.

At the end of 2016 Q1, new firm and option orders of 793 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.

Aftermarket order activity during 2016 Q1

Gross orders received by the Company's aftermarket business in 2016 Q1 increased 58% compared to 2015 Q4, and increased 58% compared to 2015 Q1. The increase in year-over-year gross orders is primarily attributed to the acquisition of MCI.

2016 Q1 total shipments increased 50% compared to 2015 Q4, and increased 26% compared to 2015 Q1. The increase in total shipments year-over-year due to the acquisition of MCI was partially offset by the completion of the Chicago Transit Authority ("CTA") mid-life upgrade program.

2016 First Quarter Financial Results

Transit Bus and Coach Deliveries (EUs) (U.S. dollars in thousands)	2016 Q1	2015 Q1	% change
New transit bus and coaches	829	572	44.9 %
Pre-owned coaches	104	—	100.0 %
Number of Total EUs delivered	933	572	63.1 %
New transit bus and coaches average selling price	$ 514.0	$ 508.2	1.1 %
Pre-owned coaches average selling price	133.6	—	100.0 %
Total average EU selling price	$ 471.6	$ 508.2	(7.2)%

Consolidated Revenue (U.S. dollars in millions)	2016 Q1	2015 Q1	% change
Transit Bus and Coach Manufacturing	$ 440.0	$ 290.7	51.4%
Aftermarket	113.3	89.6	26.4%
Total Revenue	$ 553.3	$ 380.3	45.5%

Revenue from transit bus and coach manufacturing operations for 2016 Q1 increased by 51.4% compared to 2015 Q1. The increase in 2016 Q1 revenue primarily resulted from a 63.1% increase in total transit bus and coach deliveries compared to 2015 Q1 deliveries and a 7.2% decrease in average selling price per EU in 2016 Q1 compared to 2015 Q1. The deliveries increased primarily as a result of the inclusion of MCI's new and pre-owned coaches and an extra week in 2016 Q1 as compared to 2015 Q1. The decrease in average selling price is the result of changes in the product sales mix which now includes pre-owned coaches. The average selling price for new transit buses and coaches was $514.0 thousand and $133.6 thousand for the pre-owned coaches. Total bus and coach inventory at April 3, 2016 was 571 EUs, an increase of 77 EUs from 2015 Q4.

Revenue from aftermarket operations in 2016 Q1 increased by 26.4% compared to 2015 Q1. The increase in aftermarket operations revenue in 2016 Q1 is primarily a result of aftermarket revenues generated by MCI and an extra week in 2016 Q1 as compared to 2015 Q1. The pro forma aftermarket business revenue (which includes MCI) for 2015 Q1 was $122.3 million and $105.9 million when excluding the revenue from the CTA mid-life overhaul program. Therefore, the core aftermarket revenue in 2016 Q1 increased 7.0% when compared to the pro forma aftermarket revenue for the core business in 2015 Q1.

Consolidated Adjusted EBITDA (U.S. dollars in millions)	2016 Q1	2015 Q1	% change
Transit Bus and Coach Manufacturing	$ 45.4	$ 14.7	207.9%
Aftermarket	22.8	16.7	36.8%
Total Adjusted EBITDA	$ 68.2	$ 31.4	117.0%
Adjusted EBITDA % of revenue			
Transit Bus and Coach Manufacturing	10.3%	5.1%	5.2%
Aftermarket	20.1%	18.6%	1.5%
Total	12.3%	8.3%	4.0%

Consolidated Adjusted EBITDA for 2016 Q1 increased by 117.0% compared to 2015 Q1 primarily as a result of the increase in transit bus and coach manufacturing Adjusted EBITDA. Transit bus and coach manufacturing Adjusted EBITDA increased primarily as a result of increased deliveries and improved margins. Contributors to the increase in margin is a favourable sales mix, improved pricing and the positive impact from product rationalization. Profit margins can vary significantly between orders due to factors such as pricing, order size, propulsion system and product type and components specified by the customer. Management cautions readers that quarterly transit bus and coach manufacturing Adjusted EBITDA can be volatile and should be considered over a period of several quarters.

The 2016 Q1 aftermarket operations Adjusted EBITDA increased 36.8% compared to 2015 Q1 as a result of Adjusted EBITDA generated from MCI's aftermarket business. As well, the Adjusted EBITDA as a percentage of aftermarket revenue during 2016 Q1 increased 1.5% when compared to 2015 Q1.

Net earnings (U.S. dollars in millions)	2016 Q1	2015 Q1	$ change
Earnings from operations	$ 44.0	$ 20.2	23.8
Non-cash (loss) gain	2.5	(1.9)	4.4
Interest expense	(11.5)	(4.1)	(7.4)
Income tax expense	(12.4)	(3.3)	(9.1)
Net earnings	$ 22.6	$ 10.9	11.7
Net earnings per share (basic)	$ 0.40	$ 0.20	$ 0.20

Net earnings during 2016 Q1 increased by 108.1% compared to 2015 Q1, primarily as a result of improved Earnings from Operations offset by the increase in interest and income tax expense resulting in net earnings per Share in 2016 Q1 of $0.40 compared to $0.20 per Share generated during 2015 Q1.

Free Cash Flow (CAD dollars in millions)	2016 Q1	2015 Q1	% change
Free Cash Flow	$ 61.5	$ 12.3	400.0%
Declared dividends	$ 10.4	$ 8.1	28.4%

The Company's 2016 Q1 Free Cash Flow increased by 400.0% compared to 2015 Q1 primarily as a result of the increased Adjusted EBITDA when comparing the two periods. The amount of dividends declared increased in 2016 Q1 primarily as a result of the previous increase in the annual dividend rate from C$0.62 to C$0.70 per Share.

Effective for dividends declared after May 12, 2016, the board of directors has approved a 35.7% increase in the annual dividend rate from C$0.70 to C$0.95 per Share. It is the Company's policy to pay dividends on a quarterly basis. The first quarterly dividend on the Shares in the amount of C$0.2375 per Share, if declared in June 2016, is expected to be paid in July 2016.

The April 3, 2016 liquidity position of $196.9 million is comprised of available cash of $39.8 million and $157.1 million available under the revolving portion of the Company's credit facility ("Revolver") as compared to a liquidity position of $173.9 million at December 27, 2015. The increased liquidity relates to improved cash flow from operations. As at April 3, 2016, there were $171.8 million of direct borrowings and $14.1 million of outstanding letters of credit related to the $343.0 million Revolver. Management believes that these funds, together with share issuances, other borrowings capacity and 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.

Acquisition of Motor Coach Industries

On December 18, 2015, New Flyer Holdings, Inc. acquired MCI from an affiliate of KPS Capital Partners, L.P. for cash consideration of approximately $468.7 million, which includes the final working capital adjustment. The purchase price was funded by the proceeds from the Company's new Credit Facility, as the Company amended and extended its Credit Facility to December 18, 2019 while increasing the total amount of the facilities to $825 million. The borrowing limits of the Revolver have been increased to $343 million from $115 million and the term facility has been increased to $482 million from $142 million.

The 2015 fiscal periods of New Flyer and MCI are non-coterminous. MCI's 2015 fiscal year began on January 4, 2015 whereas New Flyer's began on December 29, 2014. If MCI had been acquired on December 29, 2014, the consolidated pro forma revenue, EBITDA and Adjusted EBITDA for MCI during the 51-week period ending December 27, 2015 would have been as follows:

Unaudited	13-weeks ended April 4, 2015	13-weeks ended July 4, 2015	13-weeks ended October 3, 2015	12-week ended December 27, 2015	51-weeks ended December 27, 2015
Coach	$ 109,823	$ 127,326	$ 103,728	$ 141,766	$ 482,643
Aftermarket	32,757	35,290	33,998	28,396	130,441
MCI's pro forma revenue	$ 142,580	$ 162,616	$ 137,726	$ 170,162	$ 613,084
Coach	$ 11,332	$ 13,727	$ 10,465	$ 19,214	$ 54,738
Aftermarket	5,108	4,918	6,295	3,147	19,468
MCI's pro forma EBITDA	16,440	18,645	16,760	22,361	74,206
Fair value adjustment to inventory*	—		—	2,616	2,616
MCI's pro forma Adjusted EBITDA	$ 16,440	$ 18,645	$ 16,760	$ 24,977	$ 76,822

*As a result of the revaluation of MCI's assets and liabilities resulting from the acquisition of MCI, $10.3 million was allocated to inventory as a fair value adjustment. During the nine days from the date of acquisition to December 27, 2015 a $2.6 million non-cash charge to cost of goods sold was recorded upon the culmination of the earnings process.

New and pre-owned coach sales drive coach manufacturing revenue; however new coach sales are the primary driver of profit as pre-owned coach sales are essentially break even. MCI's deliveries has greater volatility per quarter than New Flyer's heavy-duty transit bus business. For the 51-week period ended December 27, 2015, total coach deliveries (new and pre-owned coaches) were as follows:

	2015 Q1	2015 Q2	2015 Q3	2015 Q4	Total
	(13 weeks)	(13 weeks)	(13 weeks)	(12 weeks)	(51 weeks)
New coach sales (EUs)	175	225	176	238	814
Percentage of total new coach sales	21%	28%	22%	29%	100%
Pre-owned coach sales (EUs)	72	52	63	82	269
Percentage of total pre-owned coach sales	27%	19%	23%	31%	100%

Outlook

The Company's annual operating plan for the 53-weeks ended January 1, 2017 ("Fiscal 2016") is focused on completing the integration of New Flyer and NABI's aftermarket businesses, defending and growing leading market position in the heavy-duty transit bus and motor coach markets and developing an integration/combination plan for operating the acquired MCI business.

Management continues to pursue cost and overhead savings as a result of its decision to focus exclusively on the Xcelsior® platform for transit buses as well as in daily operations through its Operational Excellence ("OpEx") initiatives. The Company's master production schedule combined with current backlog and orders anticipated to be awarded by customers under new procurements is expected to enable the Company to deliver new transit buses and coaches of approximately 3,450 EUs during Fiscal 2016 (53-week period) which compares to 3,265 EUs (New Flyer plus pro-forma MCI) in Fiscal 2015 (52-week period).

With respect to the integration of MCI, the Company continues to target annual synergies of approximately $10 million through the rationalization of corporate costs and deployment of New Flyer's OpEx and sourcing expertise. As of this date, the Company has achieved approximately $3.0 million of annualized cost savings. Management is taking the necessary time to evaluate and assess the various scenarios before determining the strategic action required. Once a course of action is determined, management will disclose the expected related costs associated with the estimated synergies savings.

Management maintains its guidance that the core aftermarket business (excluding CTA mid-life overhaul revenue) is expected to grow by approximately 5% in Fiscal 2016.

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
2016	Q1	$ 553,226	$ 43,882	$ 22,588	58,691	$ 68,178	$ 0.40
	Total	**$ 553,226**	**$ 43,882**	**$ 22,588**	**$ 58,691**	**$ 68,178**	**$ 0.40**
2015	Q4	$ 418,904	23,954	14,110	31,913	44,558	0.25
	Q3	364,683	24,983	16,559	35,004	36,277	0.30
	Q2	375,012	23,812	12,370	33,657	39,191	0.22
	Q1	380,301	20,153	10,855	29,660	31,414	0.20
	Total	**$ 1,538,900**	**$ 92,902**	**$ 53,894**	**$ 130,234**	**$ 151,440**	**$ 0.97**
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**

							Ending inventory comprised of:	
Fiscal Period	Quarter	**New** inventory, Beginning (equivalent units)	New inventory acquired (equivalent units)	New Line Entry (equivalent units)	Deliveries (equivalent units)	**New** inventory, Ending (equivalent units)	Work in process (equivalent units)	Finished goods (equivalent units)[2]
2016	Q1	494	—	906	829	571	416	155
	Total	**494**	**—**	**906**	**829**	**571**	**416**	**155**
2015	Q4	417	154	612	689	494	429	65
	Q3	447	—	595	625	417	371	46
	Q2	384	—	657	594	447	336	111
	Q1	358	—	598	572	384	324	60
	Total	**358**	**154**	**2,462**	**2,480**	**494**	**429**	**65**
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**

Fiscal Period	Quarter	**Pre-owned** inventory, Beginning (equivalent units)	**Pre-owned** inventory acquired (equivalent units)	Trades taken in (equivalent units)	Sale of **Pre-owned** Coaches (equivalent units)	**Pre-owned** inventory, Ending (equivalent units)
2016	**Q1**	**323**	**—**	**119**	**104**	**338**
2015	Q4	—	315	11	3	323

During 2016 Q1, pre-owned coach revenue was $13.9 million.

(Footnotes on page 10)

COMPARISON OF FIRST QUARTER AND TRAILING TWELVE MONTHS RESULTS

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

	14-Weeks Ended April 3, 2016	13-Weeks Ended March 29, 2015	53-Weeks Ended April 3, 2016	52-Weeks Ended March 29, 2015
Statement of Earnings Data				
Revenue				
Canada	$ 18,616	$ 20,163	$ 87,095	$ 148,305
U.S.	421,377	270,548	1,278,855	1,023,583
Bus and coach manufacturing operations	439,993	290,711	1,365,950	1,171,888
Canada	22,635	16,374	71,350	64,723
U.S.	90,598	73,216	274,525	270,925
Aftermarket operations	113,233	89,590	345,875	335,648
Total revenue	$ 553,226	$ 380,301	$ 1,711,825	$ 1,507,536
Earnings from operations[1]	43,882	$ 20,153	116,631	$ 60,389
Earnings before finance costs and income taxes	46,413	18,239	118,124	59,675
Net earnings	22,588	10,855	65,627	32,090
EBITDA[1]	58,691	29,660	159,265	98,015
Adjusted EBITDA[1]				
Bus and coach manufacturing operations including realized foreign exchange losses/gains	45,365	14,734	120,590	64,357
Aftermarket operations	22,813	16,680	67,614	54,756
Total Adjusted EBITDA[1]	$ 68,178	$ 31,414	$ 188,204	$ 119,113
Other Data (unaudited)				
Total Deliveries (New and Pre-owned Coaches)				
Canada	49	52	236	381
U.S.	884	520	2,608	2,074
Total deliveries (equivalent units)	933	572	2,844	2,455
Product rationalization capital expenditures	$ 1,136	$ 3,063	$ 8,533	$ 4,813
Other capital expenditures	2,312	1,621	6,260	10,624
Total capital expenditures	$ 3,448	$ 4,684	$ 14,793	$ 15,437
New options awarded	$ 93,902	$ 360,233	$ 1,024,909	$ 938,619
New firm orders awarded	$ 439,897	$ 102,612	$ 971,921	$ 468,028
Exercised options	329,216	68,284	937,832	383,922
Total firm orders	$ 769,113	$ 170,896	$ 1,909,753	$ 851,950

(Footnotes on next page)

Selected Statement of Financial Position Data

(Unaudited, U.S. dollars in thousands)	**April 3, 2016**		December 27, 2015		December 28, 2014	
Total assets	$ 1,790,164		$ 1,772,222		$ 1,136,115	
Long-term financial liabilities	713,018		746,649		329,644	
Other Data		Equivalent Units		Equivalent Units		Equivalent Units
Firm orders - USA	$ 1,595,544	2,950	$ 1,287,757	2,373	$ 1,066,985	1,980
Firm orders - Canada	65,501	163	34,109	89	50,371	122
Total firm orders	1,661,045	3,113	1,321,866	2,462	1,117,356	2,102
Options - USA	3,197,724	6,227	3,474,510	6,772	2,121,260	4,257
Options - Canada	144,380	378	156,524	430	155,313	386
Total options	3,342,104	6,605	3,631,034	7,202	2,276,573	4,643
Total backlog	$ 5,003,149	9,718	$ 4,952,900	9,664	$ 3,393,929	6,745

Equivalent Units in Backlog	**14-Weeks Ended April 3, 2016**		52-Weeks Ended December 27, 2015		52-Weeks Ended December 28, 2014	
	Firm orders	Options	Firm orders	Options	Firm orders	Options
Beginning of period	2,462	7,202	2,102	4,643	2,276	5,402
New orders	898	161	1,286	2,643	1,114	1,355
Acquired backlog(3)	—	—	368	1,759	—	—
Options exercised	582	(582)	1,339	(1,339)	1,149	(1,149)
Shipments(4)	(829)	—	(2,480)	—	(2,437)	—
Cancelled/expired	—	(176)	(153)	(504)	—	(965)
End of period	3,113	6,605	2,462	7,202	2,102	4,643

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

2016	655
2017	436
2018	1,290
2019	1,389
2020	1,527
2021	1,308
Total options	6,605

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

(3) On December 18, 2015 the company acquired MCI and its related backlog.

(4) Shipments do not include delivery of pre-owned coaches as these coaches are not included in the backlog.

RECONCILIATION OF NET EARNINGS TO EBITDA AND ADJUSTED EBITDA

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

(Unaudited, U.S. dollars in thousands)	14-Weeks Ended April 3, 2016	13-Weeks Ended March 29, 2015	53-Weeks Ended April 3, 2016	52-Weeks Ended March 29, 2015
Net earnings	$ 22,588	$ 10,855	$ 65,627	$ 32,090
Addback[1]				
Income taxes	12,351	3,253	30,935	12,888
Interest expense	11,474	4,131	21,562	14,697
Amortization	14,809	9,507	43,360	37,626
Unrealized foreign exchange loss (gain) on non-current monetary items and forward foreign exchange contracts	(2,531)	1,914	(2,219)	714
EBITDA[2]	58,691	29,660	159,265	98,015
Costs associated with assessing strategic and corporate initiatives[5]	55	—	7,247	—
Impairment loss on equipment and intangible assets[8]	—	—	1,413	4,831
Product rationalization costs[4]	—	1,317	2,995	4,410
Past service costs[9]	—	—	3,688	—
Non-recurring costs relating to business acquisition[7]	1,397	—	1,397	210
Fair value adjustment to MCI's inventory[10]	7,673	—	10,289	—
Loss on derecognition of long-term debt	—	—	726	—
Realized investment tax credits[6]	—	169	—	10,905
Equity settled stock-based compensation	362	268	1,184	742
Adjusted EBITDA[2]	$ 68,178	$ 31,414	$ 188,204	$ 119,113

(Footnotes on next page)

RECONCILIATION OF CASH FLOW TO EBITDA AND ADJUSTED EBITDA

(Unaudited, U.S. dollars in thousands)	14-Weeks Ended April 3, 2016	13-Weeks Ended March 29, 2015	53-Weeks Ended April 3, 2016	52-Weeks Ended March 29, 2015
Net cash generated by operating activities	$ 27,189	$ 28,709	$ 41,061	$ 57,081
Addback[1]				
Changes in non-cash working capital items	3,355	(4,562)	57,084	38,576
Defined benefit funding	2,270	765	4,559	2,153
Defined benefit expense	(1,967)	(739)	(6,691)	(2,673)
Interest paid	8,761	4,017	16,613	11,811
Impairment loss on equipment and intangible assets[8]	—	—	(1,413)	(4,831)
Loss on derecognition of long-term debt	—	—	(726)	—
Realized investment tax credits	—	(169)	—	(12,671)
Equity settled stock-based compensation	(362)	(268)	(1,184)	(742)
Foreign exchange gain (loss) on cash held in foreign currency	588	(162)	(533)	(344)
Income taxes paid [3]	18,857	2,069	50,495	9,655
EBITDA[2]	58,691	29,660	159,265	98,015
Costs associated with assessing strategic and corporate initiatives[5]	55	—	7,247	—
Impairment loss on equipment and intangible assets[8]	—	—	1,413	4,831
Product rationalization costs[4]	—	1,317	2,995	4,410
Past service costs[9]	—	—	3,688	—
Non-recurring costs relating to business acquisition[7]	1,397	—	1,397	210
Fair value adjustment to MCI's inventory[10]	7,673	—	10,289	—
Loss on derecognition of long-term debt	—	—	726	—
Realized investment tax credits[6]	—	169	—	10,905
Equity settled stock -based compensation	362	268	1,184	742
Adjusted EBITDA[2]	$ 68,178	$ 31,414	$ 188,204	$ 119,113

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 and the timing of required installment payments.
4. Normalized to exclude non-recurring expenses related to the plan to rationalize NABI bus models to a common Xcelsior® platform.
5. Normalized to exclude non-recurring expenses related to the costs of assessing strategic and corporate initiatives.
6. The Company recognizes ITCs in Adjusted EBITDA only during the period in which they are applied against income taxes payable. All ITCs have fully recognized in 2015.
7. Normalized to exclude non-recurring expenses related to the transitional costs related to acquired subsidiary companies.
8. 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 was phased out in 2015 and an impairment charge on equipment and intangible assets was recorded. As well, during 2015 Q4 the Company recorded an impairment of $1.4 million due to management’s fair value assessment of future cash flows related to a product license used in the aftermarket parts operations.
9. A new collective bargaining agreement at the Company's Winnipeg facility commenced on April 1, 2015 which included retroactive changes to the Company's defined benefit pension plan. The effect of the pension plan amendments was to increase the accrued benefit liability and the expected annual pension plan expense in Fiscal 2015 by $3,688 to reflect pension benefits provided to employees for past service.
10. As a result of the revaluation of MCI's assets and liabilities resulting from the acquisition of MCI, $10.3 million was allocated to inventory as a fair value adjustment, resulting in a non-cash charge to cost of goods sold upon the culmination of the earnings process.

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, U.S. dollars in thousands, except per Share figures)	**14-Weeks Ended April 3, 2016**	13-Weeks Ended March 29, 2015	**53-Weeks Ended April 3, 2016**	52-Weeks Ended March 29, 2015
Net cash generated by operating activities	$ 27,189	$ 28,709	$ 41,061	$ 57,081
Changes in non-cash working capital items(3)	3,355	(4,562)	57,084	38,576
Interest paid(3)	8,761	4,017	16,613	11,811
Interest expense(3)	(7,860)	(3,060)	(16,944)	(12,398)
Income taxes paid(3)	18,857	2,069	50,495	9,655
Current income tax expense(3)	(9,290)	(13,742)	(40,892)	(36,026)
Principal portion of finance lease payments	(699)	(453)	(2,125)	(1,861)
Cash capital expenditures (8)				
• related to product rationalization	(684)	(3,063)	(696)	(4,813)
• other	(2,311)	(1,248)	(6,632)	(4,605)
Costs associated with assessing strategic and corporate initiatives(7)	55	—	7,247	—
Non-recurring transitional costs relating to business acquisition(9)	1,397	—	1,397	210
Product rationalization costs(11)	—	1,317	2,995	4,410
Past service costs(12)	—	—	3,688	—
Fair value adjustment to MCI's inventory(13)	7,673	—	10,289	—
Defined benefit funding(4)	2,270	765	4,559	2,153
Defined benefit expense(4)	(1,967)	(739)	(6,691)	(2,673)
Realized investment tax credits(10)	—	—	—	(1,766)
Foreign exchange loss on cash held in foreign currency(5)	588	(162)	(533)	(344)
Free Cash Flow (US$)(1)	47,334	9,848	120,915	59,410
U.S. exchange rate(2)	1.3000	1.2523	1.3023	1.1321
Free Cash Flow (C$)(1)	**61,534**	**12,333**	**157,473**	**67,259**
Free Cash Flow per Share (C$)(6)	1.0981	0.2221	2.8286	1.2120
Declared dividends on Shares (C$)	**10,442**	**8,118**	**36,117**	**32,464**
Declared dividend per Share (C$)(6)	$ 0.1750	$ 0.1462	$ 0.6050	$ 0.5850

(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 dividends 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 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$) are determined by dividing Free Cash Flow by the total number of all issued and outstanding Shares using the weighted average over the period. The weighted average number of Shares outstanding for 2016 Q1 was 56,037,582 and 55,671,197 for the 53-weeks ended April 3, 2016. The weighted average number of Shares outstanding for 2015 Q1 was 55,506,609, and 55,491,624 for 52-weeks ended March 29 , 2015. Per Share calculations for declared dividends (C$) are determined by dividing the amount of declared dividends by the number of outstanding Shares at the respective period end date.

(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.

(9) Normalized to exclude non-recurring expenses related to the transitional costs related to the acquired subsidiary company.

(10) The Company recognizes ITCs in Adjusted EBITDA only during the period in which they are applied against income taxes payable. However, a related contractual liability existed to a third party of $1.8 million. All ITCs have fully recognized in 2015.

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

(12) A new collective bargaining agreement at the Company's Winnipeg facility commenced on April 1, 2015 which included retroactive changes to the Company's defined benefit pension plan. The effect of the pension plan amendments was to increase the accrued benefit liability and the expected annual pension plan expense in Fiscal 2015 by $3,688 to reflect pension benefits provided to employees for past service.

(13) As a result of the revaluation of MCI's assets and liabilities resulting from the acquisition of MCI, $10.3 million was allocated to inventory as a fair value adjustment, resulting in a non-cash charge to cost of goods sold upon the culmination of the earnings process.

Dividend Policy

The Board's position is to have a common share dividend policy that is consistent with the Company'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.

Effective for dividends declared after May 12, 2016, the board of directors approved a 35.7% increase in the annual dividend rate from C$0.70 to C$0.95 per Share. It is the Company's policy to pay dividends on a quarterly basis. The first quarterly dividend on the Shares in the amount of C$0.2375 per Share if declared in June 2016, is expected to be paid in July 2016.

The Board believes this level of dividend provides investors with an attractive level of current income.

Currency Impact on the Company's Reported Results

The Financial Statements are presented in U.S. dollars. New Flyer operates in both the United States and Canada and, as a result, its combined reported results are impacted by fluctuations in the exchange rate between the Canadian dollar (“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 impact of a weaker 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 traditionally do not vary unless production is shifted between Canadian and U.S. plants or materials are sourced differently, while the revenue exposure is based on the amount of CAD contracts that are recognized as revenue. Most of the Company's 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 2016 Q1, approximately 92.5% of revenue was USD denominated and approximately 7.5% was CAD denominated. As at April 3, 2016, the backlog consisted of firm CAD orders of 163 EUs ($65.5 million U.S. equivalent) representing approximately 3.9% of firm orders. CAD options at April 3, 2016 totaled 378 EUs ($144.4 million U.S. equivalent) representing approximately 4.3% of the option backlog. However, a portion of the lost revenue due to exchange is offset by the gain on CAD expenses. For new business, management factors the current exchange rate into pricing decisions to mitigate the impact on Canadian orders.

Based on production plans as of the date hereof, management expects the Company’s CAD outflows to exceed its CAD inflows during Fiscal 2016. The expectation may change based on the number of transit buses and coaches delivered to Canadian customers during Fiscal 2016. 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 settlement of 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 2016 Q1, the Company recorded a realized foreign exchange loss of $0.6 million (2015 Q1: $1.5 million gain).

At April 3, 2016, the Company had $72.0 million of foreign exchange forward contracts to buy Canadian dollars with U.S. dollar at an average agreed exchange rate of $0.73 and a foreign exchange forward collar contracts to buy 9.5 million Euros with U.S. dollars. These foreign exchange contracts range in expiry dates from April 2016 to December 2016. The related asset of $3.3 million (2015: $0.2 million 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.

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 28, 2015 to January 1, 2017 ("Fiscal 2016")		**Period from December 29, 2014 to December 27, 2015 ("Fiscal 2015")**	
	Period End Date	# of Calendar Weeks	Period End Date	# of Calendar Weeks
Quarter 1	April 3, 2016	14	March 29, 2015	13
Quarter 2	July 3, 2016	13	June 28, 2015	13
Quarter 3	October 2, 2016	13	September 27, 2015	13
Quarter 4	January 1, 2017	13	December 27, 2015	13
Fiscal year	January 1, 2017	53	December 27, 2015	52

Results of Operations

The Company's operations are divided into two business segments: transit bus and coach 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 transit bus and coach manufacturing and aftermarket operations segments.

(U.S. dollars in thousands)	**2016 Q1 (14-Weeks)**	2015 Q1 (13-Weeks)
Transit Bus and Coach Manufacturing Revenue	$ 439,993	$ 290,711
Aftermarket Revenue	113,233	89,590
Total Revenue	$ 553,226	$ 380,301
Earnings from Operations(1)	43,882	20,153
Earnings before interest and income taxes	46,413	18,239
Earnings before income tax expense	34,939	14,108
Net earnings for the period	22,588	10,855

(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 $553.2 million for 2016 Q1, an increase of 45.5% compared to consolidated revenue for 2015 Q1 of $380.3 million.

Revenue from transit bus and coach manufacturing operations for 2016 Q1 was $440.0 million, an increase of 51.4% from $290.7 million in 2015 Q1. The increase in the 2016 Q1 revenue primarily resulted from a 63.1% increase in total transit bus and coach deliveries of 933 EUs in 2016 Q1 compared to 2015 Q1 deliveries of 572 EUs and a 7.2% decrease in average selling price per EU in 2016 Q1 of $471.6 thousand compared to $508.2 thousand in 2015 Q1. The deliveries increased primarily as a result of the inclusion of MCI's new and pre-owned coaches and an extra week in 2016 Q1 as compared to 2015 Q1. The decrease in average selling price is the result of changes in the product sales

mix which now includes pre-owned coaches. The average selling price for new coaches and pre-owned coaches are $539.7 thousand and $133.6 thousand, respectively. Total transit bus and coach inventory at April 3, 2016 was 571 EUs, an increase of 77 EUs from 2015 Q4.

Revenue from aftermarket operations in 2016 Q1 of $113.3 million increased by 26.4% compared to $89.6 million during 2015 Q1. The increase in aftermarket operations revenue in 2016 Q1 is primarily a result of aftermarket revenues generated by MCI and an extra week in 2016 Q1 as compared to 2015 Q1. The pro forma aftermarket business revenue (which includes MCI) for 2015 Q1 was $122.3 million and $105.9 million when excluding the revenue from the CTA mid-life overhaul program. Therefore, the core aftermarket revenue in 2016 Q1 increased 7.0% when compared to the pro forma aftermarket revenue for the core business in 2015 Q1.

Cost of sales

The consolidated cost of sales for 2016 Q1 of $456.7 million increased by 34.1% from 2015 Q1 consolidated cost of sales of $340.7 million. This increase primarily relates to the corresponding increase in revenues generated by MCI, offset by a very favourable sales mix in 2016 Q1 as compared to 2015 Q1 and the cost saving synergies generated as a result of transitioning the Alabama facility to produce Xcelsior® buses.

Costs of sales from transit bus and coach manufacturing operations consist of direct contract costs and manufacturing overhead. The cost of sales from transit bus and coach manufacturing operations for 2016 Q1 of 378.0 million (85.9% of revenue from transit bus and coach manufacturing operations) increased 38.9% compared to the $272.1 million (93.6% of revenue from transit bus and coach manufacturing operations) in 2015 Q1. This increase in cost of sales primarily relates to the addition of MCI's coach manufacturing operations.

The cost of sales from aftermarket operations of $78.7 million (69.5% of aftermarket operations revenue) in 2016 Q1 increased 14.8% compared to $68.6 million (76.5% of aftermarket operations revenue) in 2015 Q1 primarily as a result of the inclusion of MCI's aftermarket business.

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

The consolidated SG&A for 2016 Q1 of $52.0 million (9.4% of revenue) increased 148.6% compared with $20.9 million (5.5% of revenue) in 2015 Q1. The increase in the 2016 Q1 SG&A now includes MCI's SG&A and increased costs associated with sales volume increase as well as an increase in the long-term incentive compensation expense as a result of improved earnings performance and stock price appreciation.

Realized foreign exchange loss/gain

During 2016 Q1, the Company recorded a realized foreign exchange loss of $0.6 million (2015 Q1: $1.5 million gain). The impact of changes in foreign exchange rates during 2016 Q1 on the Company's U.S. dollar reported results is low as the Company's Canadian dollar inflow approximated its Canadian dollar outflow, net of foreign exchange forward contracts.

Earnings from operations

Consolidated earnings from operations for 2016 Q1 in the amount of $43.9 million (7.9% of revenue) increased 117.7% compared to earnings from operations in 2015 Q1 of $20.2 million (5.3% of revenue).

The earnings from transit bus and coach manufacturing operations (including amortization and depreciation) for 2016 Q1 of $23.6 million (5.4% of transit bus and coach manufacturing revenue) increased compared to earnings of $4.4 million for 2015 Q1 (1.5% of transit bus and coach manufacturing revenue). This increase primarily relates to the earnings from operations generated by MCI, a very favourable sales mix in 2016 Q1 as compared to 2015 Q1 and the cost saving synergies generated as a result of transitioning the Alabama facility to produce Xcelsior® buses.

The earnings from aftermarket operations of $20.3 million (17.9% of aftermarket revenue) in 2016 Q1 increased 28.3% compared to 2015 Q1 earnings of $15.8 million (17.6% of aftermarket revenue). The increase in earnings from aftermarket operations is primarily a result of the addition of MCI's aftermarket 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)		2016 Q1	2015 Q1
Unrealized (gain) loss on forward foreign exchanges contracts	$	(3,463) $	634
Unrealized loss on other long-term monetary assets/liabilities		932	1,280
	$	(2,531) $	1,914

Earnings before interest and income taxes (“EBIT”)

In 2016 Q1, the Company recorded EBIT of $46.4 million compared to EBIT of $18.2 million in 2015 Q1. EBIT has been impacted by non-cash and non-recurring items as follows:

(Unaudited, U.S. dollars in thousands)	2016 Q1	2015 Q1
Non-cash and non-recurring charges:		
Costs associated with assessing strategic and corporate initiatives	$ 55	$ —
Unrealized foreign exchange (gain) loss	(2,531)	1,914
Equity settled stock-based compensation	362	268
Product rationalization costs	—	1,317
Fair value adjustment to MCI's inventory	7,673	—
Non-recurring costs relating to business acquisition	1,397	—
Amortization	14,809	9,507
Total non-cash and non-recurring charges:	$ 21,765	$ 13,006

Absent these non-cash and non-recurring charges, the 2016 Q1 EBIT would have been $68.2 million compared to $31.2 million in 2015 Q1.

Finance costs

The finance costs for 2016 Q1 of $11.5 million increased 177.8% compared to $4.1 million in 2015 Q1 primarily as a result of the Company having refinanced its Credit Facility on December 18, 2015, increasing the total amount of the borrowing facilities to $825 million. The borrowing limits of the Revolver were increased to $343 million from $115 million and the term facility were increased to $482 million from $142 million. Management decided to refinance $142 million from the term loan to the Revolver as a means to increase the Company's overall operating flexibility to temporarily draw upon, if required for business purposes.

Earnings before income taxes (“EBT”)

EBT for 2016 Q1 of $34.9 million improved compared to EBT of $14.1 million in 2015 Q1. The difference in the EBT between these periods results primarily from the increased earnings from operations.

Income tax expense

The income tax expense for 2016 Q1 was $12.4 million, consisting of $9.3 million of current income tax expense and $3.1 million of deferred income tax expense. In comparison, the income tax expense for 2015 Q1 was $3.3 million, consisting of $13.7 million of current income tax expense and $10.4 million of deferred income tax expense recovered. Current income tax expense recorded in 2016 Q1 decreased by $4.4 million primarily due a large non-deductible loss which temporarily increased current income taxes in 2015 Q1.

Net earnings

The Company reported net earnings of $22.6 million in 2016 Q1, an increase of 108.1% compared to net earnings of $10.9 million in 2015 Q1. The increased net earnings in 2016 Q1 are primarily as a result of increased Earnings from Operations offset by increased income taxes and interest expense.

The Company’s net earnings per Share in 2016 Q1 of $0.40 increased 100% from net earnings per Share of $0.20 generated in 2015 Q1.

Cash Flow

The cash flows of the Company are summarized as follows:

(Unaudited, U.S. dollars in thousands)	2016 Q1	2015 Q1
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	$ 58,162	$ 30,233
Interest paid	(8,761)	(4,017)
Income taxes paid	(18,857)	(2,069)
Net cash earnings	30,544	24,147
Changes in non-cash working capital items	(3,355)	4,562
Cash flow generated from operating activities	27,189	28,709
Cash flow generated used in financing activities	(9,741)	(34,116)
Cash flow used in investing activities	(3,121)	(4,333)

Cash flows from operating activities

The 2016 Q1 net operating cash inflow of $27.2 million is the result of $30.5 million of net cash earnings offset by an investment in non-cash working capital of $3.3 million, compared to 2015 Q1 net operating cash inflow of $28.7 million resulting from $24.1 million of net cash earnings and a reduction in non-cash working capital of $4.6 million. Net cash earnings during 2016 Q1 were negatively impacted by the timing of a large income tax payment as compared to 2015 Q1.

Cash flow from financing activities

The Company's 2016 Q1 financing activities resulted in a net cash outflow of $9.7 million compared to a net cash outflow of $34.1 million in 2015 Q1. The cash outflow during 2016 Q1 primarily relates to total payments against the Revolver of $8.3 million and the payment of $2.1 million in dividends. The cash outflow during 2015 Q1 primarily related to total payments against the Revolver of $27.0 million and the payment of $6.7 million in dividends. Dividend payments decreased during 2016 Q1 when compared to 2015 Q1 as a result of the change from monthly dividend payments to quarterly dividend payments.

Cash flow from investing activities

2016 Q1 investing activities resulted in a net cash outflow of $3.1 million compared to a net cash outflow of $4.3 million in 2015 Q1 primarily resulting from property, plant and equipment ("PPE") expenditures which are as follows:

(Unaudited, U.S. dollars in thousands)		**2016 Q1**		**2015 Q1**
PPE expenditures	$	3,448	$	4,684
Less PPE expenditures funded by capital leases		(453)		(373)
Cash acquisition of PPE reported on statement of cash flows	$	2,995	$	4,311

Liquidity and Capital Resources

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

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

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

As a result of the contract solicitation process in the transit bus and coach manufacturing industry, transit bus and coach purchase contracts for public customers 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 temporary working capital requirements.

The Company generated Free Cash Flow of C$61.5 million during 2016 Q1 as compared to C$12.3 million in 2015 Q1, primarily as a result of improved Adjusted EBITDA. The Company's declared dividends in 2016 Q1 of C$10.4 million compared to C$8.1 million in 2015 Q1. The amount of dividends declared increased in 2016 Q1 primarily as a result of the dividend rate increase in 2016 Q1.

Effective for dividends declared after May 12, 2016, the board of directors has approved a 35.7% increase in the annual dividend rate from C$0.70 to C$0.95 per Share. It is the Company's policy to pay dividends on a quarterly basis. The first quarterly dividend on the Shares in the amount of C$0.2375 per Share if declared in June 2016, is expected to be paid in July 2016.

The April 3, 2016 liquidity position of $196.9 million is comprised of available cash of $39.8 million and $157.1 million available under the Revolver as compared to a liquidity position of $173.9 million at December 27, 2015. The increased liquidity relates to improved cash flow from operations. As at April 3, 2016, there were $171.8 million of direct borrowings and $14.1 million of outstanding letters of credit related to the $343.0 million Revolver. Management believes that these funds, together with share issuances, other borrowings capacity and 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.

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

amounts of $37.9 million of Debentures were converted to Shares during the 2016 Q1, resulting in a total principal amount of $26.2 million of Debentures outstanding at April 3, 2016.

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 April 3, 2016, the Company was in compliance with the ratios. The results of the financial covenants tests as of such date are as follows:

	April 3, 2016	December 27, 2015
Total Leverage Ratio (must be less than 4.00)*	2.56	2.91
Interest Coverage Ratio (must be greater than 3.00)*	14.54	18.48

***** Calculated using an adjustment of $74.7 million at December 27, 2015 and $58.2 million at April 3, 2016, of annual fixed EBITDA (in accordance with the terms of the Credit Facility) as a result of the acquisition of MCI. This amount is reduced to $34.9 million and $17.5 million, respectively, in the subsequent two fiscal quarters.

Interest rate risk

On January 22, 2016, the Company replaced the $142.0 million interest rate swap with a new interest rate swap designed to hedge floating rate exposure on the $482.0 million term loan. The interest rate swap fixes the interest rate at 1.034% plus the applicable interest margin until December 2019. The fair value of the interest rate swap liability of $4.1 million at April 3, 2016 (December 27, 2015: $1.4 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 or coaches typically comes from the Federal Transit Administration, while the remaining 20% comes from state and municipal sources. The maximum exposure to the risk of credit for accounts receivables corresponds to their book value. Historically, the Company has experienced nominal bad debts as a result of the customer base being principally comprised of municipal and other local transit authorities.

In both the U.S. and Canada, purchase of new coaches and transit buses by private fleet operators is paid from their company capital budgets and funded by their cash flow. A significant portion of private fleet operators choose to finance new coach purchases with lending organizations. In some cases MCI assists in arranging this financing, but does not lend directly to its customers. The Company has experienced a similar nominal amount of bad debts with its private sales customers as most cash transactions require payment on delivery.

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 doubtful accounts. Subsequent recoveries of amounts previously written off are credited against SG&A in the consolidated statements of net earnings and total comprehensive income.

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

		April 3, 2016		December 27, 2015
Current, including holdbacks	$	256,703	$	292,717
Past due amounts but not impaired				
1 – 60 days		42,242		17,977
Greater than 60 days		16,142		7,047
Less: allowance for doubtful accounts		(591)		(645)
Total accounts receivables, net	$	314,496	$	317,096

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

The following table outlines the Company's maturity analysis of the undiscounted cash flows of certain non-current financial liabilities and leases as at April 3, 2016:

US dollars in thousands	Total	2016	2017	2018	2019	2020	Post 2020
Senior term loan	$ 558,477	$ 19,280	$ 19,280	$ 19,280	$ 500,637	$ —	$ —
Convertible debentures	28,709	1,640	27,069	—	—	—	—
Other long-term liabilities	4,250	2,250	1,000	1,000	—	—	—
Finance leases	10,352	2,761	3,081	2,356	1,848	306	—
Accrued benefit liability	30,724	1,282	2,833	3,843	3,495	3,376	15,895
Operating leases	74,585	8,486	10,932	9,746	8,090	6,432	30,899
	$ 707,097	$ 35,699	$ 64,195	$ 36,225	$ 514,070	$ 10,114	$ 46,794

As at April 3, 2016, outstanding surety bonds guaranteed by the Company amounted to $281.3 million, representing an increase compared to $182.1 million at December 27, 2015. The estimated maturity dates of the surety bonds outstanding at April 3, 2016 range from April 2016 to February 2018. Management believes that adequate facilities exist to meet projected surety requirements.

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 April 3, 2016, letters of credit amounting to $14.1 million (December 27, 2015: $14.0 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 April 3, 2016.

Stock Option Plan

The Board adopted a Share Option Plan (the "Option Plan") for NFI on March 21, 2013 (and amended on December 8, 2015), 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 the grant date.

Option Grant dates	Number	Exercised	Expired	Vested	Unvested	Expiry date	Exercise price	Fair Value at grant date
March 26, 2013	490,356	(230,263)	—	(137,506)	122,587	March 26, 2021	C$10.20	C$1.55
December 30, 2013	612,050	(92,030)	(9,631)	(213,998)	296,391	December 30, 2021	C$10.57	C$1.44
December 28, 2014	499,974	(17,988)	(11,368)	(107,008)	363,610	December 28, 2022	C$13.45	C$1.83
December 28, 2015	221,888	—	—	—	221,888	December 28, 2023	C$26.75	C$4.21
	1,824,268	(340,281)	(20,999)	(458,512)	1,004,476		C$13.23	

The following reconciles the stock options outstanding:

	14-weeks ended April 3, 2016		52-weeks ended December 27, 2015	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance at beginning of period	1,424,346	C$11.49	1,599,880	C$11.36
Granted during the period	221,888	C$26.75	—	—
Expired during the period	(20,999)	C$12.13	—	—
Exercised during the period	(162,247)	C$10.32	(175,534)	C$10.32
Balance at end of period	1,462,988	C$13.23	1,424,346	C$11.49

Restricted Share Unit Plan for Non-Employee Directors

Pursuant to the Company's Restricted Share Unit Plan for Non-Employee Directors, the Company issued approximately $164.8 thousand of director restricted share units ("Director RSUs") in 2016 Q1. Of these Director RSUs issued, approximately $46.9 thousand were exercised and exchanged for 2,405 Shares.

Equity risk

On March 30, 2016, the Company entered into a total return swap transaction to hedge the exposure associated with increases in its share value on a portion of the outstanding performance share units and restricted share units. The Company does not apply hedge accounting to these relationships and as such, gains and losses arising from marking these derivatives to market are recognized in net earnings in the period in which they arise. As at April 3, 2016, the Company had built a hedged position of 94.4 thousand Shares at a weighted average price of C $33.53. During the 14-weeks ended April 3, 2016, the Company recognized $0.1 thousand in expense related to the total return swaps.

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, 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 five 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. With regards to the goodwill acquired as part of the MCI acquisition, the estimated purchase price allocation remains subject to adjustments that could arise as a result of new information that would impact the determination of fair value of the assets acquired and liabilities assumed.

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 and the expected rate of future compensation changes. Actual results will differ from results which are estimated by management 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 exist as a result of 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 on the transit buses and coaches it sells. 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. 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 five CGUs: transit bus and coach manufacturing, aftermarket parts operations (excluding NABI Parts), NABI Parts, MCI's motor coach manufacturing and MCI's motor coach aftermarket parts 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.

IFRS 9 - Financial Instruments:

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. IFRS 9 - Financial Instruments introduces new requirements for the classification and measurement of financial instruments. 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:

The IASB issued IFRS 15 – Revenue from Contracts with Customers, which will become effective January 1, 2018 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.

IFRS 16 – Leases:

IFRS 16 eliminates the distinction between operating and finance leases and requires most leases to be recorded on the balance sheet for lessees under a single model unless the lease term is twelve months or less or the underlying asset has a low value. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. The IASB has an effective date for annual periods beginning on or after January 1, 2019 with an early adoption permitted if IFRS 15 - Revenue from Contracts with Customers

has also been applied. 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 Organizations 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.

Management, under the supervision of the CEO and CFO, evaluated the design and operational effectiveness of the Company's ICFR as of December 27, 2015 in accordance with the criteria established in COSO 2013, and concluded that the Company's ICFR are effective.

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

Management believes there have been no changes in the Company's ICFR during 2016 Q1 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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

Disclosure Controls

Management is responsible for establishing and maintaining disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner and that information required to be disclosed is reported within time periods prescribed by applicable securities legislation. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. The Company has limited its design of disclosure controls and procedures to exclude controls, policies and procedures of MCI, as it was acquired not more than 365 days before the end of the financial period to which this MD&A relates. The Company's CEO and CFO have concluded that disclosure controls and procedures as at December 27, 2015 were effective.

On December 18, 2015, New Flyer Holdings, Inc. acquired MCI from an affiliate of KPS Capital Partners, L.P. for net cash consideration of approximately $468.7 million. During the period between the December 18, 2015 acquisition date and December 27, 2015, MCI generated revenues of approximately $19 million and comprehensive loss of approximately $1.3 million, which have been recorded in the consolidated statements of net earnings and comprehensive income for Fiscal 2015. Also, MCI generated revenues of approximately $160.4 million and a net loss of approximately $2.5 million during 2016 Q1. A summary of the assets acquired and liabilities assumed is as follows:

(Unaudited, U.S. dollars in thousands)	
Current assets	$ 218,121
Non-current assets	488,641
Current liabilities	(113,965)
Non-current liabilities	(124,125)
Cash purchase price	$ 468,672

Interim Condensed Consolidated Financial Statements of

NEW FLYER INDUSTRIES INC.

April 3, 2016

(Unaudited)

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NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET EARNINGS AND COMPREHENSIVE INCOME
For the period ended April 3, 2016
(unaudited, in thousands of U.S. dollars except per share figures)

	14-Weeks Ended April 3, 2016	13-Weeks Ended March 29, 2015
Revenue (note 12)	$ 553,226	$ 380,301
Cost of sales (note 4)	456,715	340,674
Gross profit	96,511	39,627
Sales, general and administration costs and other operating expenses	52,026	20,929
Foreign exchange loss (gain)	603	(1,455)
Earnings from operations	43,882	20,153
Unrealized foreign exchange (gain) loss on non-current monetary items	(2,531)	1,914
Earnings before interest and income taxes	46,413	18,239
Finance costs		
Interest on long-term debt and convertible debentures	5,935	2,334
Accretion in carrying value of long-term debt and convertible debentures	849	584
Other interest and bank charges	1,925	726
Fair market value adjustment on interest rate swap and total return swap	2,765	487
	11,474	4,131
Earnings before income tax expense	34,939	14,108
Income tax expense (note 5)		
Current income taxes	9,290	13,742
Deferred income taxes (recovered)	3,061	(10,489)
	12,351	3,253
Net earnings and total comprehensive income for the period	22,588	10,855
Net earnings per share (basic) (note 9)	$ 0.40	$ 0.20
Net earnings per share (diluted) (note 9)	$ 0.40	$ 0.19

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

NEW FLYER INDUSTRIES INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at April 3, 2016
(unaudited, in thousands of U.S. dollars)

	April 3, 2016	December 27, 2015
Assets		
Current		
Cash	$ 39,795	$ 24,880
Accounts receivable (note 3,11e)	314,496	317,096
Income tax receivable	2,457	4,723
Inventories (note 4)	367,016	353,756
Derivative financial instruments (note 11b, c)	3,301	—
Prepaid expenses and deposits	10,638	6,560
	737,703	707,015
Property, plant and equipment	133,216	132,396
Deferred tax assets (note 5)	10,564	12,145
Goodwill and intangible assets	908,681	920,666
	$ 1,790,164	$ 1,772,222
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 295,566	$ 273,069
Income tax payable	10,223	21,470
Derivative financial instruments (note 11b)	—	163
Current portion of deferred revenue	27,949	31,703
Current portion of provision for warranty costs (note 14)	23,382	22,246
Current portion of long-term debt (note 6)	171,769	180,060
Current portion of deferred compensation obligation	6,733	9,783
Current portion of obligations under finance leases	4,984	3,219
	540,606	541,713
Accrued benefit liability	26,156	26,251
Obligations under finance leases	4,802	6,673
Deferred compensation obligation	5,493	8,212
Deferred revenue	11,095	11,969
Other long-term liabilities	15,912	14,377
Provision for warranty costs (note 14)	30,653	29,650
Deferred tax liabilities (note 5)	113,459	111,278
Long-term debt (note 6)	476,115	475,753
Convertible debentures (note 7)	25,217	61,135
Derivative financial instruments (note 11b, c)	4,116	1,351
	1,253,624	1,288,362
Commitments and contingencies (note 13)		
Shareholders' equity		
Share capital (note 8)	632,262	591,758
Stock option reserve	2,692	2,832
Equity component of convertible debentures (note 7)	1,552	3,791
Accumulated other comprehensive loss	(6,320)	(6,320)
Deficit	(93,646)	(108,201)
	536,540	483,860
	$ 1,790,164	$ 1,772,222

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

Approved and authorized by the board of directors on May 12, 2016.

NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the period ended April 3, 2016

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

	Share Capital	Equity Component of Convertible Debentures (note 7)	Stock Option and Restricted Share Unit Reserve	Accumulated Other Comprehensive Loss	Deficit	Total Shareholders' Equity
Balance, December 28, 2014	**$ 589,586**	**$ 3,820**	**$ 1,046**	**$ (6,049)**	**$ (135,781)**	**$ 452,622**
Net earnings	—	—	—	—	10,855	10,855
Dividends declared on common shares	—	—	—	—	(6,482)	(6,482)
Share-based compensation, net of deferred income taxes	—	—	285	—	—	285
Shares issued	25	—	(25)	—	—	—
Conversion of debentures to common shares	14	(2)	—	—	—	12
Balance, March 29, 2015	**$ 589,625**	**$ 3,818**	**$ 1,306**	**$ (6,049)**	**$ (131,408)**	**$ 457,292**
Net earnings	—	—	—	—	43,039	43,039
Other comprehensive loss	—	—	—	(271)	—	(271)
Dividends declared on common shares	—	—	—	—	(19,832)	(19,832)
Share-based compensation, net of deferred income taxes	—	—	1,821	—	—	1,821
Shares issued	1,648	—	(295)	—	—	1,353
Conversion of debentures to common shares	485	(27)	—	—	—	458
Balance, December 27, 2015	**$ 591,758**	**$ 3,791**	**$ 2,832**	**$ (6,320)**	**$ (108,201)**	**$ 483,860**
Net earnings	—	—	—	—	22,588	22,588
Dividends declared on common shares	—	—	—	—	(8,033)	(8,033)
Deferred tax assets recognized as a result of historical share redemptions	301	—	—	—	—	301
Share-based compensation, net of deferred income taxes	—	—	90	—	—	90
Shares issued	1,559	—	(230)	—	—	1,329
Conversion of debentures to common shares	38,644	(2,239)	—	—	—	36,405
Balance, April 3, 2016	**$ 632,262**	**$ 1,552**	**$ 2,692**	**$ (6,320)**	**$ (93,646)**	**$ 536,540**

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

NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the period ended April 3, 2016
(unaudited, in thousands of U.S. dollars)

	14-Weeks Ended April 3, 2016	13-Weeks Ended March 29, 2015
Operating activities		
Net earnings for the period	$ 22,588	$ 10,855
Income tax expense	12,351	3,253
Depreciation of plant and equipment	6,179	4,191
Amortization of intangible assets	8,630	5,316
Share-based compensation	362	268
Finance costs recognized in profit or loss	11,474	4,131
Unrealized foreign exchange (gain) loss on non-current monetary items	(2,531)	1,914
Foreign exchange (gain) loss on cash held in foreign currency	(588)	162
Realized investment tax credits	—	169
Defined benefit expense	1,967	739
Defined benefit funding	(2,270)	(765)
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	58,162	30,233
Changes in non-cash working capital items (note 10)	(3,355)	4,562
Cash generated from operating activities before interest and income taxes paid	54,807	34,795
Interest paid	(8,761)	(4,017)
Income taxes paid	(18,857)	(2,069)
Net cash generated from operating activities	27,189	28,709
Financing activities		
Repayment of obligations under finance lease	(699)	(453)
Repayment of long-term debt	(8,291)	(27,000)
Share issuance	1,329	—
Dividends paid	(2,080)	(6,663)
Net cash used in financing activities	(9,741)	(34,116)
Investing activities		
Acquisition of intangible assets	(126)	(22)
Acquisition of property, plant and equipment	(2,995)	(4,311)
Net cash used in investing activities	(3,121)	(4,333)
Effect of foreign exchange rate on cash	588	(162)
Increase in cash	14,915	(9,902)
Cash — beginning of period	24,880	17,456
Cash — end of period	$ 39,795	$ 7,554

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

1. CORPORATE INFORMATION

New Flyer Industries Inc. ("NFI" or the "Company") was incorporated on June 16, 2005 under the laws of the Province of Ontario. NFI is the largest transit bus and motor coach manufacturer and parts distributor in North America with fabrication, manufacturing, distribution and service centers in Canada and the United States.

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 May 12, 2016.

1.1 Acquisition of Motor Coach Industries

On December 18, 2015 (the "Acquisition Date"), New Flyer Holdings Inc., acquired 100% of the voting equity interest in Motor Coach Industries International, Inc. ("MCI") from an affiliate of KPS Capital Partners, L.P. for cash consideration of approximately $468.7 million, which includes the final working capital adjustment. The purchase price was funded by the proceeds from the Company's new senior secured credit facility. MCI is North America's leading motor coach manufacturer and parts and service supplier. 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 the Acquisition Date. The Company adjusted the preliminary purchase price allocation as set out below to account for information that was not previously available. This included the addition of the intangible for backlog of sales orders and the completion of the valuation studies on property, plant and equipment. The adjustments recorded resulted in a decrease to goodwill of $1,595 from the amount previously reported.

	Original	Adjustments	Revised
Cash purchase price	$ 468,672	$ —	$ 468,672
Net assets acquired			
Accounts receivable	62,571	—	62,571
Inventories	152,684	—	152,684
Prepaid expenses and deposits	2,866	—	2,866
Property, plant and equipment	69,848	4,399	74,247
Deferred tax assets	19,652	—	19,652
Accounts payable and accrued liabilities	(92,285)	—	(92,285)
Deferred revenue	(15,160)	—	(15,160)
Provision for warranties	(6,520)	—	(6,520)
Accrued benefit liability	(21,717)	—	(21,717)
Other long-term liabilities	(8,213)	—	(8,213)
Deferred tax liabilities	(93,291)	(904)	(94,195)
Net tangible assets acquired	70,435	3,495	73,930
Trade names	62,000	—	62,000
Patent and licenses	11,000	—	11,000
Customer relationships	157,000	(7,000)	150,000
Backlog of sales orders	—	5,100	5,100
Identifiable intangible assets acquired	230,000	(1,900)	228,100
Goodwill acquired	$ 168,237	$ (1,595)	$ 166,642

The goodwill acquired is largely attributable to the synergies and economies of scale expected from the combined businesses of NFI and MCI. This goodwill is not expected to be deductible for tax purposes. The estimated purchase price allocation remains subject to adjustments that could arise as a result of new information that would impact the determination of fair value of the assets acquired and liabilities assumed. There is continued analysis to be undertaken which will provide the final allocation between the operating segments and complete the validation of the valuation assumptions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Statements are the same as those applied by the Company in its consolidated financial statements as at and for the 52-week period ended December 27, 2015 ("Fiscal 2015"). These Statements should be read in conjunction with the Company's consolidated financial statements for Fiscal 2015.

2.1 Statement of Compliance

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

2.2 Basis of preparation

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

In preparing these Statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied by the Company in its consolidated financial statements as at and for Fiscal 2015.

2.3 Principles of consolidation

The Statements include the accounts of all of the Company's subsidiaries: New Flyer Holdings, Inc., Transit Holdings, Inc., New Flyer of America Inc., New Flyer Industries Canada ULC ("NFI ULC"), 1176846 Alberta ULC, TCB Enterprises, LLC, NABI Parts, LLC, Transit Acquisition, LLC, Transit Parts Holdings, Inc., Transit Finco, Inc, Carriage Acquisition, LLC, New MCI Holdings, Inc., MCII Holdings, Inc., MCI, Motor Coach Industries, Inc., MCI Sales and Services Inc., MCI Service Parts, Inc., MCIL Holdings, Ltd., Motor Coach Industries Limited and Frank Fair Industries Ltd.

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 design, engineering, test and prototype development activities. The Company recognizes in relation to its interest in a joint operation: its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly; its revenue from the sale of its share of the output arising from the joint operation; its share of the revenue from the sale of the output by the joint operation; and its expenses, including its share of any expenses incurred jointly.

2.4 Standards issued but not yet adopted

IFRS 9 - Financial Instruments:

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. IFRS 9 - Financial Instruments introduces new requirements for the classification and measurement of financial instruments. 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:

The IASB issued IFRS 15 – Revenue from Contracts with Customers, which will become effective January 1, 2018 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.

IFRS 16 – Leases:

IFRS 16 eliminates the distinction between operating and finance leases and requires most leases to be recorded on the balance sheet for lessees under a single model unless the lease term is twelve months or less or the underlying asset has a low value. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. The IASB has an effective date for annual periods beginning on or after January 1, 2019 with an early adoption permitted if IFRS 15 - Revenue from Contracts with Customers has also been applied. Management is in the process of reviewing the standard to determine the impact on the Company's financial statements.

2.5 Fiscal periods

The Company's 2016 fiscal period is divided in quarters as follows:

	Period from December 28, 2015 to January 1, 2017 ("Fiscal 2016")		Period from December 29, 2014 to December 27, 2015 ("Fiscal 2015")	
	Period End Date	# of Weeks	Period End Date	# of Weeks
Quarter 1	April 3, 2016	14	March 29, 2015	13
Quarter 2	July 3, 2016	13	June 28, 2015	13
Quarter 3	October 2, 2016	13	September 27, 2015	13
Quarter 4	January 1, 2017	13	December 27, 2015	13
Fiscal year	January 1, 2017	53	December 27, 2015	52

3. ACCOUNTS RECEIVABLE

	April 3, 2016	December 27, 2015
Trade, net of allowance for doubtful accounts	$ 286,205	$ 284,118
Other	28,291	32,978
	$ 314,496	$ 317,096

4. INVENTORIES

	April 3, 2016	December 27, 2015
Raw materials	$ 151,277	$ 152,405
Work in process	118,124	138,902
Finished goods	97,615	62,449
	$ 367,016	$ 353,756

	14-Weeks Ended April 3, 2016	13-Weeks Ended March 29, 2015
Cost of inventories recognized as expense and included in cost of sales	$ 439,228	$ 327,200
Write-down of inventory to net realizable value in cost of sales	1,287	454
Reversals of a previous write-down in inventory	28	181

5. DEFERRED TAXES AND INCOME TAX EXPENSE

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 tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The offset amounts by tax jurisdiction presented on the statements of financial position are as follows:

	April 3, 2016	December 27, 2015
As presented on statements of financial position:		
Deferred tax assets	$ 10,564	$ 12,145
Deferred tax liabilities	(113,459)	(111,278)
	$ (102,895)	$ (99,133)

5. DEFERRED TAXES AND INCOME TAX EXPENSE

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

	14-Weeks Ended April 3, 2016	13-Weeks Ended March 29, 2015
Beginning of period	$ (99,133)	$ (46,230)
Assumed on December 18, 2015 relating to MCI acquisition (note 1.1)	(904)	—
Exchange differences	252	(1,754)
Tax recorded through net earnings	(3,061)	10,489
Benefit of loss carry forward and share issuance costs recognized against income taxes payable	(93)	(95)
Tax recorded through equity	44	17
End of period	$ (102,895)	$ (37,573)

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	Unrealized Foreign Exchange	Other	Total
December 27, 2015	$ (6,917)	$ (183,695)	$ —	$ (4,558)	$ (195,170)
Assumed on December 18, 2015 relating to MCI acquisition	660	(1,564)	—	—	(904)
Tax reversed through net earnings	(3,100)	4,418	(5,769)	(271)	(4,722)
April 3, 2016	$ (9,357)	$ (180,841)	$ (5,769)	$ (4,829)	$ (200,796)

Deferred tax assets	Unrealized Foreign Exchange	Tax Credits	Provisions	Property Plant and Equipment	Pension	Deferred Financing Costs and Interest	Other	Total
December 27, 2015	$ 5,712	$ 10,340	$ 28,790	$ 6,813	$ 9,118	$ 3,041	$ 32,223	$ 96,037
Tax recovered (charged) through net earnings	(5,618)	2,135	2,408	734	769	245	988	1,661
Tax recorded through equity	—	—	—	—	—	301	(257)	44
Benefit of loss carry forward and share issuance costs recognized against income taxes payable	—	—	—	—	—	(93)	—	(93)
Exchange differences	17	—	84	20	27	9	95	252
April 3, 2016	$ 111	$ 12,475	$ 31,282	$ 7,567	$ 9,914	$ 3,503	$ 33,049	$ 97,901

5. DEFERRED TAXES AND INCOME TAX EXPENSE

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

	14-Weeks Ended April 3, 2016	13-Weeks Ended March 29, 2015
Earnings before income tax expense	$ 34,939	$ 14,108
Tax calculated using a 35% U.S. tax rate	12,229	4,938
Tax effect of:		
Withholding and other taxes	221	290
Non-taxable income	(3,361)	(316)
Foreign exchange impact	2,641	(1,972)
State taxes	1,385	723
Rate differential on income taxed at other than U.S. statutory rate	(915)	(218)
Other	151	(192)
Income tax expense for the period	$ 12,351	$ 3,253

Income tax expense reported for the period is an estimate reflecting the Company's anticipated effective tax rate for Fiscal 2016.

Certain of MCI's Canadian income tax returns for the 2005 through 2010 taxation years are under review by Canada Revenue Agency ("CRA") with respect to transfer pricing policies applied for those years. MCI has received Notices of Reassessment from the CRA for the 2005-2007 taxation years, with respect to the reallocation of income to the Canadian operations from the U.S. operations, in relation to splitting consolidated profit between the two jurisdictions. The basis of allocating income to Canada was based on a CRA proposed transfer pricing methodology which differed from the transfer pricing approach followed by the Company. MCI has filed Competent Authority notifications with both the CRA and the Internal Revenue Service to allow for treaty benefits to remain open. MCI has also filed requests for Competent Authority assistance in Canada for the 2005-2007 years. The Company has recorded a reasonable estimate for the tax liability associated with this matter in the income taxes payable account recorded on the interim condensed consolidated statements of financial position. An equal and offsetting indemnity amount receivable from the previous owner of MCI has also been recorded interim condensed consolidated statements of financial position. The amount of the tax exposure is uncertain and could significantly increase or decrease with respect to this transfer pricing audit, however, the amount of such change cannot be reasonably estimated by management given the stage of the review. If the amount of the tax exposure increases materially, the indemnity may not be sufficient to offset it fully.

6. LONG-TERM DEBT

	Face Value	Unamortized Transaction Costs	**Net Book Value April 3, 2016**	Net Book Value December 27, 2015
Term Credit Facility	$ 482,000	$ 5,885	$ 476,115	$ 475,753
Revolving Credit Facility ("Revolver")	171,769	—	171,769	180,060
	653,769	5,885	647,884	655,813
Less: current portion of long-term debt	171,769	—	171,769	180,060
	$ 482,000	$ 5,885	$ 476,115	$ 475,753

On December 18, 2015, the Company entered into its fifth amended and restated credit agreement (the "Credit Facility") which has a total borrowing limit of $825.0 million. The term facility (the "Term Credit Facility") and the Revolver mature on December 18, 2019. Under the Credit Facility the borrowing limit of the Revolver is $343.0 million to support working capital fluctuations. The Revolver includes a $55.0 million letter of credit sub-facility, of which $14.1 million of outstanding letters of credit were drawn at April 3, 2016. Under the Credit Facility the borrowing limit of the Term Credit Facility is $482.0 million. The Credit Facility also includes an accordion feature of $75.0 million.

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) certain of the capital stock of, and all inter-company notes owing to all of NFI's existing and direct and indirect subsidiaries, and (b) a perfected lien on, and security interest in, all of the existing and future tangible and intangible properties and assets of NFI and its direct and indirect subsidiaries, with certain exceptions.

7. CONVERTIBLE DEBENTURES

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

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. 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 $37,895 of Debentures were converted to Shares during the 14-weeks ended April 3, 2016, resulting in a total principal amount of $26,249 of Debentures outstanding at April 3, 2016.

	Liability component of Debenture	Equity component of Debenture	**Net Book Value April 3, 2016**	Net Book Value December 27, 2015
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	—	(574)	(574)	(1,421)
Accretion in carrying value of debenture liability	6,473	—	6,473	5,986
Conversion of Debentures to Shares	(37,205)	(3,136)	(40,341)	(850)
Net book value	$ 25,217	$ 1,552	$ 26,769	$ 64,926

8. SHARE CAPITAL

	April 3, 2016	December 27, 2015
Authorized - Unlimited		
Issued - 59,693,433 Common Shares (December 27, 2015: 55,739,281)	$ 632,262	$ 591,758

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 27, 2015	55,739	$ 591,758
Stock options exercised	162	1,512
Restricted Share Units exercised	2	47
Conversion of Debentures to Shares	3,790	38,644
Deferred tax assets recognized as a result of historical share redemptions	—	301
Balance – April 3, 2016	59,693	$ 632,262

9. EARNINGS PER SHARE

	14-Weeks Ended April 3, 2016	13-Weeks Ended March 29, 2015
Net earnings attributable to equity holders	$ 22,588	$ 10,855
Weighted average number of Shares outstanding	56,037,583	55,506,609
Net incremental Shares from assumed conversion of stock options	799,254	267,016
Weighted average number of Shares for diluted earnings per Share	56,836,837	55,773,625
Net earnings per Share (basic)	$ 0.4031	$ 0.1956
Net earnings per Share (diluted)	$ 0.3974	$ 0.1946

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 2,624,900 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.

10. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	**14-Weeks Ended April 3, 2016**	13-Weeks Ended March 29, 2015
Accounts receivable	$ 2,600	$ 25,275
Income tax receivable	2,266	778
Inventories	(13,260)	(1,994)
Prepaid expenses and deposits	(4,078)	856
Accounts payable and accrued liabilities	22,497	(6,587)
Income taxes payable	(11,247)	10,534
Deferred revenue	(4,628)	(18,112)
Provisions	2,139	2,657
Other	356	(8,845)
	$ (3,355)	$ 4,562

11. 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

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(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.

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

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

	April 3, 2016		
	Fair value level	Carrying amount	Fair value
Financial assets recorded at fair value			
Derivative financial instrument assets			
Foreign exchange forward and total return swap contracts	Level 2	$ 3,301	$ 3,301
Financial liabilities recorded at fair value			
Derivative financial instrument liabilities			
Interest rate swap	Level 2	4,116	4,116
Financial liabilities recorded at amortized cost			
Debentures (including equity conversion option)	Level 2	$ 26,769	$ 68,040

(c) Risk Management

The Company uses derivative financial instruments including interest rate swaps, total return swaps, foreign exchange options and forward foreign exchange contracts. These instruments are financial contracts whose value depends on interest rates, share price and foreign currency prices.

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

On January 22, 2016, the Company replaced the $142,000 interest rate swap with a new interest rate swap designed to hedge floating rate exposure on $482,000 term loan. The new interest rate swap fixes the interest rate at 1.034% plus the applicable interest margin until December 2019. The fair value of the interest rate swap liability at April 3, 2016 is $4,116 (December 27, 2015: 1,351) and the change in fair value has been recorded as finance costs for the reported period. The related liability has been recorded on the interim condensed consolidated statements of financial position as a derivative financial instruments liability.

On March 30, 2016, the Company entered into a total return swap transaction to hedge the exposure associated with increases in its share value on a portion of the outstanding performance share units and restricted share units. The Company does not apply hedge accounting to these relationships and as such, gains and losses arising from marking these derivatives to market are recognized in net earnings in the period in which they arise. As at April 3, 2016, the Company had built a hedged position of 94.4

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

thousand shares at a weighted average price of $33.53. During the 14-weeks ended April 3, 2016, the Company recognized $10 in expense related to the total return swaps.

(d) Liquidity Management

The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At April 3, 2016, the Company had a cash balance of $39,795 (December 27, 2015: $24,880) and the $343,000 Revolver. As at April 3, 2016, there was $171,769 of direct borrowings (December 27, 2015: $180,060) and $14,084 of outstanding letters of credit (December 27, 2015: $13,975) under the Revolver.

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

(e) Credit risk

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

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

	April 3, 2016	December 27, 2015
Current, including holdbacks	$ 256,703	$ 292,717
Past due amounts but not impaired		
1 – 60 days	42,242	17,977
Greater than 60 days	16,142	7,047
Less: Allowance for doubtful accounts	(591)	(645)
Total accounts receivables, net	$ 314,496	$ 317,096

As at April 3, 2016, 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.

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. In accordance with terms of the Credit Facility, the Debentures are treated as equity for purposes of calculating the total leverage ratio. At April 3, 2016, the Company was in compliance with the ratios. The results of the financial covenants tests as of such date are as follows:

	April 3, 2016	December 27, 2015
Total Leverage Ratio (must be less than 4.00)	2.56	2.91
Interest Coverage Ratio (must be greater than 3.00)	14.54	18.48

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.

12. SEGMENT INFORMATION

The Company has two reportable segments: Bus and Coach Manufacturing 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 Manufacturing Operations segment derives its revenue from the manufacture of transit buses for public transportation and motor coaches. The Aftermarket Operations segment derives its revenue from the provision of service parts and support related to transit buses and motor coaches. 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 to the Manufacturing Operations segment.

The Manufacturing Operations segment has recorded vendor rebates of $1,765 (2015 Q1: $879), which have been recognized into earnings during 2016 Q1, but for which the full requirements for entitlement to these rebates have not yet been met.

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

Segment information about profits and assets is as follows:

	14-Weeks Ended April 3, 2016			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 439,993	$ 113,233	—	$ 553,226
Operating costs and expenses	416,384	92,960	—	509,344
Earnings (loss) before income tax expense	23,609	20,273	(8,943)	34,939
Total assets	1,002,162	293,451	494,551	1,790,164
Addition of capital expenditures	2,697	298	—	2,995
Addition of goodwill and intangibles assets	—	126	—	126
Goodwill	149,950	62,705	166,642	379,297

	13-Weeks Ended March 29, 2015			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 290,711	$ 89,590	—	$ 380,301
Operating costs and expenses	286,359	73,789	—	360,148
Earnings (loss) before income tax expense	4,352	15,801	(6,045)	14,108
Total assets	522,679	215,096	363,608	1,101,383
Addition of capital expenditures	4,311	—	—	4,311
Addition of goodwill and intangibles assets	2	20	—	22
Goodwill	149,950	62,705	—	212,655

13. COMMITMENTS AND CONTINGENCIES

(a) Through the normal course of operations, the Company has indemnified the surety companies providing surety bonds required under various contracts with customers. In the event that the Company fails to perform under a contract and the surety companies incur a cost on a surety bond, the Company is obligated to repay the costs incurred in relation to the claim up to the value of the bond.

The Company's guarantee under each bond issued by the surety companies expires on completion of obligations under the customer contract to which the bond relates. The estimated maturity dates of the surety bonds outstanding at April 3, 2016 range from April 2016 to February 2018.

At April 3, 2016, outstanding surety bonds guaranteed by the Company totaled $281,258 (December 27, 2015: $182,096). The Company has not recorded any liability under these guarantees, as management believes that no material events of default exist under any contracts with customers.

(b) The Company has a letter of credit sub-facility of $55,000 as part of the $343,000 Revolver. As at April 3, 2016, letters of credit totaling $14,084 (December 27, 2015: $13,975) remain outstanding under the letter of credit facility.

As at April 3, 2016, 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.

14. PROVISIONS FOR WARRANTY COSTS

The Company generally provides its customers with a base warranty on the entire bus or motor coach and a corrosion warranty on the related 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 period are as follows:

December 27, 2015		51,896
Additions		8,700
Amounts used/realized		(5,661)
Unwinding of discount and effect of changes in the discount rate		(22)
Exchange differences		(878)
		54,035
Less current portion		(23,382)
April 3, 2016	$	30,653