May 9, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS ENDED APRIL 1, 2018

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 13-week period ended April 1, 2018 ("2018 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"), The Aftermarket Parts Company, LLC ("TAPC"), TCB Enterprises, LLC ("TCB"), Carfair Composites Inc. ("CCI") and Carfair Composites USA, Inc. ("CCUI", and together with "CCI", "Carlson"), The Reliable Insurance Company Limited, ARBOC Specialty Vehicles, LLC ("ARBOC") and New MCI Holdings, Inc. and its affiliated entities (collectively, "MCI"). References to "New Flyer" generally refer to NFI ULC, NFAI, TAPC, CCI, CCUI 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". As at April 1, 2018, 62,971,836 Shares were issued and outstanding. 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 35-foot to 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 (related to the weight of the vehicle), (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. ARBOC manufactures body-on-chassis "cutaway" and "medium-duty" buses that service transit, paratransit, and shuttle applications. All other buses manufactured by New Flyer are classified as "transit buses". Collectively, transit buses, medium-duty buses and cutaways, will be referred to as "buses".

All of the data presented in this MD&A with respect to market share, the number of transit buses, medium-duty buses, cutaways and motor coaches in service and delivered, is measured in, or based on, "equivalent units". One equivalent unit (or "EU") represents one 30-foot, 35-foot, 40-foot or 45-foot heavy-duty transit bus, one medium-duty bus, one cutaway bus or one motor coach, whereas one articulated transit bus represents two equivalent units. An articulated transit bus is an extra long transit bus (approximately 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 suspension or the termination of contracts by customers for convenience, the current U.S federal "Buy-America" legislation may change and/or become more onerous, inability to achieve U.S. Disadvantaged Business Enterprise Program requirements, local content bidding preferences and requirements under Canadian content policies may change and/or become more onerous, trade policies in the United States and Canada (including NAFTA) may undergo significant change, potentially in a manner materially adverse to the Company, production delays may result in liquidated damages under the Company's contracts with its customers, inability of the Company 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") 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 or unique 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 Company may have difficulty selling pre-owned coaches and realizing expected resale values, inability of the Company to successfully execute strategic plans and maintain profitability, development of competitive products or technologies, the Company may incur material losses and costs as a result of product liability claims, catastrophic events may lead to production curtailments or shutdowns, dependence on management information systems and risks related to cyber security, dependence on a limited number of key executives whom may not be able to be adequately replaced if they leave the Company, employee related disruptions as a result of an inability to successfully renegotiate collective bargaining agreements when they expire, risks related to acquisitions and other strategic relationships with third parties, inability 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 ADJUSTED EBITDA, ROIC AND FREE CASH FLOW

References to "Adjusted EBITDA" are to earnings before interest, income taxes, depreciation and amortization after adjusting for the effects of certain non-recurring and/or non-operations related items that do not reflect the current ongoing cash operations of the Company including: gains or losses on disposal of property, plant and equipment, unrealized foreign exchange losses or gains on non-current monetary items, fair value adjustment for total return swap, non-recurring transitional costs relating to business acquisitions, equity settled stock-based compensation, gain on bargain purchase of subsidiary company, fair value adjustment to acquired subsidiary company's inventory and deferred revenue, costs associated with assessing strategic and corporate initiatives and proportion of the total return swap realized. "Free Cash Flow" means net cash generated by operating activities adjusted for changes in non-cash working capital items, interest paid, interest expense, income taxes paid, current income tax expense, effect of foreign currency rate on cash, defined benefit funding, non-recurring transitional costs relating to business acquisitions, costs associated with assessing strategic and corporate initiatives, defined benefit expense, cash capital expenditures, proportion of the total return swap realized, proceeds on disposition of property, plant and equipment, gain received on total return swap settlement, fair value adjustment to acquired subsidiary company's inventory and deferred revenue and principal payments on capital leases. References to "ROIC" are to net operating profit after taxes (calculated by Adjusted EBITDA less depreciation of plant and equipment and income taxes at the expected effective tax rate) divided by average invested capital for the last twelve month period (calculated as to shareholders' equity plus long-term debt, obligations under finance leases, other long-term liabilities, convertible debentures and derivative financial instrument liabilities less cash).

Management believes Adjusted EBITDA, ROIC and Free Cash Flow are useful measures in evaluating the performance of the Company. However, Adjusted EBITDA, ROIC 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 ROIC and Adjusted EBITDA should not be construed as an alternative to net earnings or loss or cash flows from operating activities 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 Adjusted EBITDA, based on the Financial Statements, has been provided under the headings "Reconciliation of Net Earnings to Adjusted EBITDA" and "Reconciliation of Cash Flow to 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 Adjusted EBITDA, ROIC 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 bus and motor coach manufacturer and parts distributor in North America, with 32 fabrication, manufacturing, distribution, and service centers located across Canada and the United States and employing nearly 6,000 team members. The Company can trace its roots back to 1930.

The Company provides a comprehensive suite of mass transportation solutions under several brands: New Flyer® (heavy-duty transit buses), MCI® (motor coaches), ARBOC® (low-floor cutaway and medium-duty buses) and NFI Parts™ (bus and coach parts, support, and service). The Company's vehicles incorporate the widest range of drive systems available ranging from clean diesel, natural gas, diesel-electric hybrid, trolley-electric, battery-electric and fuel cell electric.

- New Flyer is North America's heavy-duty transit bus leader and offers the most advanced product line under the Xcelsior® and Xcelsior CHARGE™ brands. New Flyer actively supports over 44,000 heavy-duty transit buses (New Flyer, NABI, and Orion) currently in service, of which 7,300 are powered by electric motors and battery propulsion and 1,600 are zero-emission.
- ARBOC is North America's low-floor cutaway bus leader serving transit, paratransit, and shuttle applications. With approximately 3,000 buses in service, ARBOC leads the low-floor cutaway bus market providing unsurpassed passenger accessibility and comfort over traditional high-floor cutaway vehicles. ARBOC also offers a medium-duty bus for transit and shuttle applications.
- Motor Coach Industries is North America's motor coach leader offering the J-Series, the industry's best-selling intercity coach for 11 consecutive years, and the D-Series, the industry's best-selling motor coach line in North American history. MCI actively supports over 28,000 coaches currently in service.
- NFI Parts is North America's most comprehensive parts organization in the bus markets that NFI operates in, providing replacement parts, technical publications, training, service, and support for NFI Group's bus and motor coach product lines.

2018 First Quarter in Review

Demand for Transit Buses and Motor Coaches

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

Period	Bids in Process (EUs)	Bids Submitted (EUs)	Active EUs	Forecasted Industry Procurement over 5 Years (EUs)(1)	Total Bid Universe (EUs)
2017 Q1	2,424	5,660	8,084	14,060	22,144
2017 Q2	1,253	6,852	8,105	14,166	22,271
2017 Q3	1,541	5,072	6,613	14,303	20,916
2017 Q4	3,091	1,687	4,778	16,406	21,184
2018 Q1	2,974	3,479	6,453	17,186	23,639

(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.

While procurement of transit buses and motor coaches by the public sector is typically accomplished through formal multi-year contracts, procurement by the private sector is typically through transactional sales of small orders of vehicles. As a result, the Company does not have a bid universe for private sector transit buses and coaches.

The sale of cutaway and medium-duty buses manufactured by ARBOC is accomplished on a transactional purchase order basis through third party dealers who hold contracts directly with the customers. Bids are submitted by and agreements are held with a network of dealers and therefore cutaway and medium-duty bus activity is also not included in the Bid Universe metric.

Order activity during 2018 Q1

New orders (firm and options) during 2018 Q1 totaled 736 EUs. The new firm and option orders awarded to the Company for 2018 Q1 LTM ("LTM" meaning "last twelve months" ended on the referenced date) were 5,848 EUs. The Company was also successful at converting 441 EUs of options during 2018 Q1 to firm orders, which contributed to the 1,627 EUs of options converted to firm orders in 2018 Q1 LTM.

	New Orders in Quarter (Firm and Option EUs)	LTM New Orders (Firm and Option EUs)	Option Conversions in Quarter (EUs)	LTM Option Conversions (EUs)
2017 Q1	708	4,243	218	1,700
2017 Q2	958	3,773	389	1,492
2017 Q3	1,634	4,822	559	1,763
2017 Q4	2,520	5,820	238	1,404
2018 Q1	736	5,848	441	1,627

In 2018 Q1, 350 option EUs expired, compared to 141 option EUs that expired during the 13-week period ended December 31, 2017 ("2017 Q4").

The majority of public transit contracts have a term of five years. The table below shows the number of option EUs that have either expired or been exercised annually over the past five years, as well as the current backlog of options that will expire each year if not exercised.

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
A) Options Expired (EUs)	965	504	550	331	350						2,700
B) Options Exercised (EUs)	1,149	1,339	2,064	1,404	441						6,397
C) Current Options by year of expiry (EUs)					521	1,075	1,296	1,997	2,495	167	7,551
D) Conversion rate % = B / (A+B)	**54%**	**73%**	**79%**	**81%**							

In addition to contracts for identified customers, the Company 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 the Company or any other original equipment manufacturer.

At the end of 2018 Q1, the Company's total backlog (firm and options) of 11,548 EUs (valued at $5.75 billion) decreased 5.0% compared to 12,157 EUs (valued at $6.02 billion) at the end of 2017 Q4.

The Company's 2018 Q1 LTM Book-to-Bill ratio (defined as new firm and option orders divided by new transit bus, medium-duty, cutaways and coach deliveries) was 149%. The Company's LTM Book-to-Bill ratio has exceeded 100% for the last fifteen quarters. A ratio above 100% implies that more orders were received than filled, which management believes indicates increasing demand for the Company's products.

In addition, 904 EUs of new firm and option orders were pending from customers at the end of the period, where approval of the award to the Company had been made by the customer's board, council, or commission, as applicable, but purchase documentation had not yet been received by the Company and therefore not yet included in the backlog.

Parts order activity during 2018 Q1

Gross orders received by the Company's aftermarket business increased by 1.2% in 2018 Q1 compared to 2017 Q4, while increasing by 6.6% over orders for the 13-week period ended April 2, 2017 ("2017 Q1"). For 2018 Q1, ARBOC aftermarket parts orders were not material and not included in these figures.

While Q1 2018 has shown improvements in parts orders received and revenue, when compared to both 2017 Q4 and 2017 Q1, the continued strong deliveries of new buses and coaches has caused softening in the parts market which is affecting revenue. Management believes that some of the factors causing the decrease in volume are: a decline in the installed base of certain acquired brands no longer in production (such as Orion and NABI) and a decrease in the average age of fleets and improved quality of the Xcelsior® and MCI coaches compared to prior models.

The parts leadership team has developed a business strategy that is expected to address the needs of the entire diverse customer base. This new integrated organization is branded as "**nfi.parts**", which will maintain primary focus on supporting the two original equipment manufacturer ("OEM") businesses of NFI (New Flyer and MCI), while targeting new market opportunities.

During the planning and execution of the integration, the aftermarket sales, general and administrative costs and other operating expenses ("SG&A") are anticipated to remain flat. After the completion of the integrated aftermarket parts organization, however, management expects cost reductions to lower the operating expenses, with expected savings anticipated later in 2018 and 2019.

2018 First Quarter Financial Results

Year-over-year comparisons reported in this MD&A compare 2018 Q1 to 2017 Q1. 2018 Q1 is the first full fiscal quarter that includes ARBOC's financial performance. Organizational changes to better align business functions within operating segments were made effective January 2, 2017. This organizational change was implemented in two phases. In 2017, over-the-counter parts sales were moved from the coach operations to aftermarket operations. In 2018 the service function, comprised of technical service management and customer training, which was previously managed by the aftermarket operations, of MCI only, was moved to the coach manufacturing operations. To improve the comparability between periods, the related prior year segment information has been restated to reflect these changes.

Deliveries (EUs)	**2018 Q1**	**2017 Q1**	**% change**
New transit bus, coach and cutaway	993	892	11.3 %
Pre-owned coach	64	65	(1.5)%
Average EU selling price (U.S. dollars in thousands)			
New transit bus, coach and cutaway average selling price	$ 469.9	$ 525.6	(10.6)%
Pre-owned coaches average selling price	$ 127.1	$ 109.5	16.1 %

Consolidated Revenue (U.S. dollars in millions)	**2018 Q1**	**2017 Q1**	**% change**
New transit bus, coach and cutaway	$ 466.6	$ 468.8	(0.5)%
Pre-owned coach	8.1	7.1	14.1 %
Fiberglass reinforced polymer components	3.9	—	100.0 %
Manufacturing	478.6	475.9	0.6 %
Aftermarket	100.1	96.2	4.1 %
Total Revenue	$ 578.7	$ 572.1	1.2 %

Revenue from manufacturing operations for 2018 Q1 increased by 0.6% compared to 2017 Q1. The increase in 2018 Q1 revenue primarily resulted from a 11.3% increase in new transit bus, coach and cutaway deliveries compared to 2017 Q1 deliveries, as well as the inclusion of the revenue to third parties for the fiberglass reinforced polymer components operations. This increase was offset by a 10.6% decrease in average selling price per EU in 2018 Q1 compared to 2017 Q1. Volume increased as a result of higher transit bus deliveries and the inclusion of ARBOC deliveries offset by a reduction in motor coach deliveries. Motor coach deliveries are seasonal, with comparatively stronger fourth and softer first quarters; however 2017 Q1 deliveries were stronger as a result of recovering New Jersey deliveries following the contract deferral in 2016. Additionally, management believes tax changes in the U.S., related to accelerated depreciation, resulted in a seasonably stronger 2017 Q4, followed by a weaker 2018 Q1. The decrease in average selling price is the result of normal volatility as well as changes in the product sales mix which now includes ARBOC's units which have a substantially lower selling price than the average heavy-duty transit bus or motor coach. Manufacturing business revenue for 2018 Q1 of $478.6 million is $6.2 million lower when compared to proforma manufacturing business revenue (which includes ARBOC) for 2017 Q1.

Revenue from aftermarket operations in 2018 Q1 increased by 4.1% compared to 2017 Q1.

Net earnings (U.S. dollars in millions)	2018 Q1	2017 Q1	$ change
Earnings from operations	$ 51.8	$ 59.2	-7.4
Non-cash gain (loss)	(3.1)	1.4	(4.5)
Interest expense	(3.8)	(4.0)	0.2
Income tax expense	(14.5)	(18.7)	4.2
Net earnings	$ 30.4	$ 37.9	-7.5
Net earnings per share (basic)	$ 0.48	$ 0.61	$ (0.13)

Net earnings during 2018 Q1 decreased by $7.5 million compared to 2017 Q1 resulting in a decrease in net earnings per common share ("Share") in 2018 Q1 of $0.48, compared to $0.61 per Share in 2017 Q1 primarily as a result of the following events: $3.9 million past service cost adjustment (net of tax) related to a collective bargaining agreement which commenced on April 1, 2018 and a $2.8 million (net of tax) unrealized foreign exchange loss on non-current monetary items. The impact of these events to net earnings per share was $0.11.

Management believes that ROIC is an important ratio and metric that can be used to assess investments against their related earnings and capital utilization. ROIC during the last twelve months ended April 1, 2018 was 15.4%, as compared to 14.6% during the last twelve months ended April 2, 2017 ("2017 Q1 LTM") improving primarily as a result of a decreased effective tax rate ("ETR") under the U.S. tax reform effective December 22, 2017, as well as improved net operating profits.

Adjusted EBITDA (U.S. dollars in millions)	2018 Q1	2017 Q1 (restated)	% change
Manufacturing	$ 53.9	$ 48.5	11.1 %
Aftermarket	19.9	22.9	(13.1)%
Total Adjusted EBITDA	$ 73.8	$ 71.4	3.4 %
<u>Adjusted EBITDA % of revenue</u>			
Manufacturing	11.2%	10.2%	1.0 %
Aftermarket	19.9%	23.8%	-3.9 %
Total	12.7%	12.5%	0.2 %

Manufacturing Adjusted EBITDA per new EU delivered (U.S. dollars)	2018 Q1	2017 Q1 (restated)	$ change
Manufacturing Adjusted EBITDA (in millions)	$ 53.9	$ 48.5	$ 5.4
New transit bus, coach and cutaway deliveries (EUs)	993	892	101
Manufacturing Adjusted EBITDA per new EU delivered (in thousands)	$ 54.3	$ 54.4	$ (0.1)

Consolidated Adjusted EBITDA for 2018 Q1 increased by 3.4% compared to 2017 Q1.

The 2018 Q1 manufacturing Adjusted EBITDA increased 11.1% compared to 2017 Q1 primarily as a result of increased deliveries, improved margins and the inclusion of ARBOC's operations. Contributors to the increase in margin included a favourable sales mix and continued cost reductions achieved through the Company's operational excellence initiatives. The pro forma manufacturing business Adjusted EBITDA per EU (which includes ARBOC) for 2018 Q1 was $54,300 which is $2,500 higher per EU when compared to 2017 Q1.

Margins vary significantly due to factors such as pricing, order size, propulsion system, product type and options specified by the customer. Management cautions readers that quarterly Adjusted EBITDA and Adjusted EBITDA per EU can be volatile and should be considered over a period of several quarters.

Pre-owned coaches are sold at effectively break-even and therefore the related deliveries are not included in the calculation of manufacturing Adjusted EBITDA per new EU delivered.

2018 aftermarket operations Adjusted EBITDA decreased by 13.1% compared to 2017 Q1 due to sales mix and costs involved in consolidating the New Flyer and MCI parts business. Aftermarket sales and margins remain difficult to forecast due to a significant portion of the business being transactional in nature, and as a result experiences significant quarterly volatility.

The 2018 Q1 net operating cash inflow of $16.9 million is the result of $41.7 million of net cash earnings offset by an investment in non-cash working capital of $24.9 million. Changes in non-cash working capital are primarily a result of seasonality and are expected to be temporary in nature. The net operating cash inflow for 2017 Q1 of $89.6 million resulted from $46.0 million of net cash earnings, in addition to a reduction in non-cash working capital of $43.7 million.

Free Cash Flow (dollars in millions)	**2018** **Q1**	**2017** **Q1**	**%** **change**
Free Cash Flow (US dollars)	$ 40.7	$ 40.4	0.7 %
Free Cash Flow (CAD dollars)	$ 52.4	$ 53.7	(2.4)%
Declared dividends (CAD dollars)	$ 20.5	$ 14.7	39.5 %
Payout Ratio (Declared dividends divided by Free Cash Flow)	39.0%	27.4%	42.3 %

The amount of dividends declared increased by 39.5% in 2018 Q1 as a result of the increase in the annual dividend rate from C$0.95 to C$1.30 per Share effective for dividends declared after May 10, 2017 and additional Shares issued as a result of conversion of NFI's previously outstanding convertible debentures.

The liquidity position of $204.1 million as at April 1, 2018 is comprised of available cash of $15.3 million and $188.8 million available under the revolving portion of the Company's credit facility ("Revolver") as compared to a liquidity position of $222.3 million at December 31, 2017. The decrease in liquidity relates to changes in non-cash working capital. Changes in non-cash working capital are primarily a result of seasonality and are expected to be temporary in nature. Management believes that these funds, together with share and debt 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.

Property, Plant and Equipment ("PPE") expenditures (U.S. dollars in millions)	**2018** **Q1**	**2017** **Q1**	**%** **change**
PPE expenditures	$ 16.9	$ 6.7	152.2%
Less PPE expenditures funded by capital leases	(5.1)	(0.3)	1,600.0%
Cash acquisition of PPE reported on statement of cash flows	$ 11.8	$ 6.4	84.4%

PPE cash expenditures in 2018 Q1 have increased by 84.4% compared to 2017 Q1 primarily as a result of investments in facilities, increased part fabrication capacity in the Company's new Shepherdsville, KY facility and as a result of insourcing and continuous improvement programs.

Acquisition of ARBOC Specialty Vehicles, LLC

On December 1, 2017, the Company acquired ARBOC for cash consideration of $96.6 million, subject to certain purchase price adjustments. The purchase price was funded by cash on hand and borrowings under the Revolver.

If ARBOC had been acquired on January 2, 2017, the consolidated pro forma revenue for the 13-week period ending April 2, 2017 would have been as follows:

Revenue - Manufacturing Segment Only (Unaudited, U.S. dollars in millions)		13-weeks ended April 2, 2017
ARBOC Cutaway buses revenue	$	8.9
NFI's manufacturing revenue		475.9
NFI's pro forma revenue	$	484.8

Adjusted EBITDA - Manufacturing Segment Only (Unaudited, U.S. dollars in millions)		13-weeks ended April 2, 2017 (restated)
ARBOC's manufacturing Adjusted EBITDA[1]	$	2.2
Post acquisition manufacturing Adjusted EBITDA		—
ARBOC's pro forma manufacturing Adjusted EBITDA		2.2
NFI's manufacturing Adjusted EBITDA		48.5
NFI pro forma manufacturing Adjusted EBITDA	$	50.7
NFI pro forma Adjusted EBITDA per EU	$	51.8

Deliveries	13-weeks ended April 2, 2017
Cutaway sales (EUs)	87
New transit bus and coach	892
Total pro forma deliveries	979

[1] ARBOC's prior definition of Adjusted EBITDA excluded product development costs as a majority of these costs related to the continued development of its medium-duty bus. Subsequent to the December 1, 2017 acquisition date, ARBOC includes all future development costs in accordance with New Flyer's definition of Adjusted EBITDA.

Outlook

The Company's annual operating plan for the 52-weeks ending December 30, 2018 ("Fiscal 2018") is focused on maintaining and growing its leading market position in the heavy-duty transit bus, motor coach and cutaway markets and aftermarket parts distribution through enhanced competitiveness.

On March 23, 2018 the U.S. Congress passed the fiscal year budget which included appropriations for public transportation of $13.5 billion.The American Public Transportation Association ("APTA") has recently indicated that the federal budget is a big win for public transportation. According to APTA, the total appropriations of $13.5 billion is the largest amount appropriated for public transportation in an annual spending bill and the largest one-year increase, with more than $1 billion over last year. Management commends the efforts of APTA in working with the U.S. federal government to ensure public transportation needs are addressed through the federal budget process.

Based on an aging fleet, overall economic conditions, expected customer fleet replacement plans, and active or anticipated procurements, management continues to expect bus procurement activity throughout the U.S. and Canada will remain stable through 2018.

MCI continues to develop and expand its product portfolio. The new D45 CRT LE coach, with its revolutionary improvements to support people with disabilities, is undergoing testing at the bus testing facility in Altoona, PA in order to qualify as a vehicle that is eligible for purchase using FTA funding. The new MCI 35'coach, the J3500 is undergoing electronic stability control calibration and certification. Production capability to support the manufacture of these vehicles will be in place in the second half of 2018 with deliveries expected to begin in 2019.

As the population ages and ease of access becomes more of a focus, management also believes the demand for low-floor cutaway and medium-duty buses with greater accessibility will grow from its current level of 5% of the total cutaway market, following the migration that occurred in the heavy-duty transit bus space. Management estimates that ARBOC delivered 64% of all the low-floor cutaway buses that were delivered in 2017. ARBOC is currently testing its medium duty product (Spirit of Equess) at the bus testing facility in Altoona, PA. Management is pleased with customer response anticipating deliveries starting in the second half of 2018.

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 approximately 4,350 EUs during Fiscal 2018. Production rates are adjusted and can vary from quarter to quarter due to product mix and contract award timing.

Heavy Duty Transit	Motor Coach	Cutaway and Medium-Duty	Total
2,774 EU	1,076 EU	500 EU	4,350 EU

With a current healthy production schedule, low leverage, and solid liquidity, management continues to be focused on PPE investment and estimates PPE expenditures for Fiscal 2018 to be in the range of approximately $63 to $73 million. This estimate is approximately $8 million higher than what was originally disclosed, as the revised range includes amounts that were planned for Fiscal 2017, but were carried forward to Fiscal 2018 and also as a result of a better understanding of the PPE investments needed in the newly acquired composite businesses. Spending relates to equipment maintenance as well as growth projects which management expects to generate margin enhancements consistent with its targets.

Following Daimler’s decision to terminate MCI’s Distribution Rights Agreement ("DRA") relating to the distribution of Daimler's Setra motor coaches, there are no sales of new Setra motor coaches planned for Fiscal 2018. The DRA was established in 2012, and since then, MCI has only sold a total of 282 new Setra coaches, of which 21 were sold in 2017. In accordance with the DRA, MCI is returning new unsold coaches to Daimler, but will continue to sell pre-owned Setra coaches.

Ongoing surveys and discussions with large parts customers continue to indicate a number of market effects including: customers' inventory reduction strategies, budget constraints and fleet modernization efforts. Although part sales remain difficult to forecast, management expects that the parts market will remain relatively stable in Fiscal 2018, but may experience quarter-to-quarter volatility as is typical for this segment of the business.

North American Free Trade Agreement ("NAFTA")

The Company's manufacturing facilities operate in an integrated manner with parts and components shipping in both directions over the Canadian/U.S. border. The Company's supply chain has been established to ensure compliance with the more stringent U.S. federal Buy America requirements for rolling stock funded by Federal Transit Administration grants. In the case of both New Flyer and MCI public customers, a certain quantity of transit bus and motor coach shells are manufactured in Canada and shipped for final assembly in the United States. In the case of private sector sales, all MCI motor coaches are manufactured in Canada. Under the current NAFTA agreement, all shells and finished buses and coaches move across the border free of any duties. Nearly all the purchased components sourced in the NAFTA region meet the current 62.5% regional content requirement and therefore also move across the border free of any duties. The Company today pays immaterial tariffs for non-NAFTA supply. Any amendments that would impose duties on parts, shells and finished buses and coaches could have a financial impact given materials comprise approximately 69% of manufacturing costs and complete buses and coaches are imported to each country on a regular basis. Management continues to closely monitor NAFTA negotiations and is developing contingency plans to mitigate should changes occur to the current agreement.

Dividends

Based on the improvement in earnings and cash flow as well as the Company's outlook, the Company's board of directors (the "Board") has approved an increase of 15.4% in the annual dividend rate. The new annual dividend rate of C$1.50 per Share is effective for dividends declared after May 9, 2018. The Board believes that the new dividend rate has been established at a sustainable level, although such distributions are not assured.

SELECTED QUARTERLY AND ANNUAL FINANCIAL AND OPERATING INFORMATION

The following selected unaudited 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 (see footnotes on page 14).

Fiscal Period	Quarter	Revenue	Adjusted EBITDA[1]	Earnings from Operations	Net earnings	Earnings per Share
2018	Q1	578,634	73,841	51,753	30,356	0.48
2017	Q4	654,560	90,488	71,495	76,118	1.21
	Q3	541,721	70,998	55,141	34,577	0.55
	Q2	613,430	85,090	70,363	42,769	0.69
	Q1	572,147	71,450	59,203	37,904	0.61
	Total	**$ 2,381,858**	**$ 318,026**	**$ 256,202**	**$ 191,368**	**$ 3.06**
2016	Q4	$ 622,530	$ 76,824	$ 61,244	$ 41,558	$ 0.68
	Q3	511,483	63,788	46,633	26,002	0.43
	Q2	586,937	80,331	64,789	34,746	0.58
	Q1	553,226	68,178	43,882	22,588	0.40
	Total	**$ 2,274,176**	**$ 289,121**	**$ 216,548**	**$ 124,894**	**$ 2.10**

								Ending inventory comprised of:	
Fiscal Period	Quarter	New inventory, Beginning (EUs)	New inventory transferred to property, plant and equipment (EUs)	New ARBOC inventory acquired (EUs)	New Line Entry (EUs)	Deliveries (EUs)	New inventory, Ending(EUs)	Work in process (EUs)	Finished goods (EUs)[2]
2018	Q1	489	(3)	—	1,140	993	633	456	177
2017	Q4	566	(4)	31	964	1,068	489	392	97
	Q3	534	—	—	909	877	566	400	166
	Q2	547	—	—	978	991	534	397	137
	Q1	495	—	—	944	892	547	359	188
	Total	**495**	**(4)**	**31**	**3,795**	**3,828**	**489**	**392**	**97**
2016	Q4	632	—	—	856	993	495	347	148
	Q3	559	—	—	850	777	632	387	245
	Q2	571	—	—	900	912	559	391	168
	Q1	494	—	—	906	829	571	416	155
	Total	**494**	**—**	**—**	**3,512**	**3,511**	**495**	**347**	**148**

Fiscal Period	Quarter	Pre-owned inventory, Beginning (EUs)	Pre-owned inventory transferred from (to) property, plant and equipment (EUs)	Trades taken in (EUs)	Sale of Pre-owned Coaches (EUs)*	Pre-owned inventory, Ending (EUs)
2018	Q1	343	21	79	64	379
2017	Q4	323	5	161	146	343
	Q3	342	(15)	85	89	323
	Q2	370	9	73	110	342
	Q1	379	(36)	92	65	370
	Total	**379**	**(37)**	**411**	**410**	**343**
2016	Q4	316	—	164	101	379
	Q3	308	—	78	70	316
	Q2	338	—	76	106	308
	Q1	323	—	119	104	338
	Total	**323**	—	**437**	**381**	**379**

* During 2018 Q1 pre-owned coach revenue was $8.1 million.

COMPARISON OF FIRST QUARTER AND TRAILING TWELVE MONTHS RESULTS

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

	13-Weeks Ended April 1, 2018	13-Weeks Ended April 2, 2017	52-Weeks Ended April 1, 2018	52-Weeks Ended April 2, 2017
Statement of Earnings Data		(restated*)	(restated*)	(restated*)
Revenue				
Canada	$ 31,979	$ 48,189	$ 138,394	$ 146,016
U.S.	446,600	427,744	1,876,879	1,773,247
Transit bus and coach manufacturing operations	478,579	475,933	2,015,273	1,919,263
Canada	19,482	19,903	75,110	79,666
U.S.	80,573	76,311	297,962	294,168
Aftermarket operations	100,055	96,214	373,072	373,834
Total revenue	$ 578,634	$ 572,147	$ 2,388,345	$ 2,293,097
Earnings from operations	51,753	59,203	$ 248,752	$ 231,869
Earnings before interest and income taxes	48,646	60,530	247,704	228,890
Net earnings	30,356	37,904	183,820	140,210
Adjusted EBITDA[(1)]				
Transit bus and coach manufacturing operations including realized foreign exchange losses/gains	53,931	48,572	243,593	207,182
Aftermarket operations	19,910	22,878	76,824	85,211
Total Adjusted EBITDA[(1)]	$ 73,841	$ 71,450	$ 320,417	$ 292,393
Other Data (unaudited)				
Total Deliveries (New and Pre-owned Coaches)				
Canada	162	107	297	333
U.S.	831	785	3,632	3,241
New deliveries	993	892	3,929	3,574
Pre-owned deliveries	64	65	409	342
Total deliveries (EUs)	1,057	957	4,338	3,916
Capital expenditures	$ 16,945	$ 6,691	$ 67,674	$ 33,107
New options awarded	$ 177,535	$ 68,671	$ 1,475,356	$ 1,098,296
New firm orders awarded	$ 160,147	$ 267,170	$ 1,318,999	$ 1,005,719
Exercised options	240,698	99,845	953,728	871,936
Total firm orders	$ 400,845	$ 367,015	$ 2,272,727	$ 1,877,655

(Footnotes on next page)

* Organizational changes to better align business functions within operating segments were made effective January 2, 2017. This organizational change was implemented in two phases. In 2017, over-the-counter parts sales were moved from the coach operations to aftermarket operations. In 2018 the service function, comprised of technical service management and customer training, which was previously managed by the aftermarket operations, of MCI only, was moved to the coach manufacturing operations. To improve the comparability between periods, the related prior year segment information has been restated to reflect these changes.

Selected Statement of Financial Position Data

(Unaudited, U.S. dollars in thousands)	April 1, 2018		December 31, 2017		January 1, 2017	
Total assets	$ 2,045,252		$ 1,974,587		$ 1,822,403	
Long-term financial liabilities	814.407		783,573		772,623	
ROIC for LTM[1, 5]	16.2%		15.8%		14.3%	
Other Data		Equivalent Units		Equivalent Units		Equivalent Units
Firm orders - USA	$ 1,798,929	3,340	$ 1,886,958	3,713	$ 1,658,882	3,182
Firm orders - Canada	250,167	657	212,276	473	109,129	260
Total firm orders	2,049,096	3,997	2,099,234	4,186	1,768,011	3,442
Options - USA	3,566,462	7,233	3,772,651	7,637	3,422,538	6,630
Options - Canada	132,203	318	147,584	334	39,487	115
Total options	3,698,665	7,551	3,920,235	7,971	3,462,025	6,745
Total backlog	$ 5,747,761	11,548	$ 6,019,469	12,157	$ 5,230,036	10,187
Consisting of:						
Heavy-duty transit buses	$ 4,865,631	9,631	$ 5,131,323	10,164	$ 4,112,765	8,027
Motor coaches	859,485	255	860,296	1,671	1,117,271	2,160
Cutaway and medium-duty buses	22,645	1,662	27,850	322	—	—
Total Backlog	$ 5,747,761	11,548	$ 6,019,469	12,157	$ 5,230,036	10,187

Equivalent Units in Backlog	**13-Weeks Ended April 1, 2018**		**52-Weeks Ended December 31, 2017**		**53-Weeks Ended January 1, 2017**	
	Firm orders	Options	Firm orders	Options	Firm orders	Options
Beginning of period	4,186	7,971	3,442	6,745	2,462	7,202
New orders	365	371	2,859	2,961	2,437	2,157
Acquired backlog[3]	—	—	315	—	—	—
Options exercised	441	(441)	1,404	(1,404)	2,064	(2,064)
Shipments[4]	(993)	—	(3,828)	—	(3,511)	—
Cancelled/expired	(2)	(350)	(6)	(331)	(10)	(550)
End of period	3,997	7,551	4,186	7,971	3,442	6,745
Consisting of:						
Heavy-duty transit buses	3,371	6,260	3,542	6,622	2,994	5,033
Motor coaches	371	1,291	322	1,349	448	1,712
Cutaway and medium-duty buses	255	—	322	—	—	—
Total Backlog	3,997	7,551	4,186	7,971	3,442	6,745

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

2018	521
2019	1,075
2020	1,296
2021	1,997
2022	2,495
2023	167
Total options	7,551

(1) Adjusted EBITDA and ROIC are not recognized earnings measures and do not have standardized meanings prescribed by IFRS. Therefore, Adjusted EBITDA and ROIC may not be comparable to similar measures presented by other issuers. See "Definitions of Adjusted EBITDA, ROIC and Free Cash Flow" above. Management believes that Adjusted EBITDA and ROIC 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 1, 2017 the Company acquired ARBOC and its related backlog.

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

(5) ROIC has been calculated using an effective tax rate of 31%.

RECONCILIATION OF NET EARNINGS TO ADJUSTED EBITDA

Management believes that Adjusted EBITDA is an important measure in evaluating the historical operating performance of the Company. However, Adjusted EBITDA is not a recognized earnings measure under IFRS and does not have a standardized meaning prescribed by IFRS. Accordingly, Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Readers of this MD&A are cautioned that Adjusted EBITDA should not be construed as an alternative 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 Adjusted EBITDA as described under “Definitions of Adjusted EBITDA, ROIC and Free Cash Flow” above. The following tables reconcile net earnings or losses and cash flow from operations to Adjusted EBITDA based on the historical unaudited consolidated financial statements of the Company for the periods indicated.

(Unaudited, U.S. dollars in thousands)	13-Weeks Ended April 1, 2018	13-Weeks Ended April 2, 2017	52-Weeks Ended April 1, 2018	52-Weeks Ended April 2, 2017
Net earnings	$ 30,356	$ 37,904	$ 183,820	$ 140,210
Addback[1]				
Income taxes	14,540	18,662	46,132	75,213
Interest expense	3,750	3,964	17,752	13,467
Amortization	16,668	13,219	61,051	58,126
Loss (gain) on disposition of property, plant and equipment	(14)	(238)	57	(238)
Fair value adjustment for total return swap[7]	(1,631)	(2,778)	(3,572)	(5,115)
Unrealized foreign exchange loss (gain) on non-current monetary items and forward foreign exchange contracts	3,121	(1,089)	2,150	3,217
Costs associated with assessing strategic and corporate initiatives[4]	46	94	3,645	574
Past service costs[9]	5,810	—	5,810	—
Non-recurring costs (recoveries) relating to business acquisition[5]	—	—	(435)	390
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue[6]	266	—	532	2,352
Proportion of the total return swap realized[8]	460	1,290	3,134	2,876
Equity settled stock-based compensation	469	422	1,500	1,321
Gain on bargain purchase of subsidiary company	—	—	(1,159)	—
Adjusted EBITDA[2]	$ 73,841	$ 71,450	$ 320,417	$ 292,393

(Footnotes on next page)

RECONCILIATION OF CASH FLOW TO ADJUSTED EBITDA

(Unaudited, U.S. dollars in thousands)	13-Weeks Ended April 1, 2018	13-Weeks Ended April 2, 2017	52-Weeks Ended April 1, 2018	52-Weeks Ended April 2, 2017
Net cash generated from operating activities	$ 16,875	$ 89,634	$ 99,300	$ 212,149
Addback[(1)]				
Changes in non-cash working capital items	24,873	(43,671)	75,605	(24,669)
Defined benefit funding	9,213	4,759	15,930	12,131
Defined benefit expense	(7,155)	(1,261)	(11,044)	(4,571)
Interest paid	5,216	4,812	19,159	22,330
Equity settled stock-based compensation	(469)	(422)	(1,500)	(1,320)
Gain received on the total return swap settlement	—	—		(509)
Foreign exchange gain (loss) on cash held in foreign currency	279	(33)	772	(274)
Income taxes paid [(3)]	17,958	15,826	108,009	69,613
Costs associated with assessing strategic and corporate initiatives[(4)]	46	94	3,645	574
Past service costs[(9)]	5,810	—	5,810	—
Non-recurring costs relating to business acquisition[(5)]	—	—	(435)	390
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue [(6)]	266	—	532	2,352
Proportion of the total return swap [(8)]	460	1,290	3,134	2,876
Equity settled stock -based compensation	469	422	1,500	1,321
Adjusted EBITDA[(2)]	$ 73,841	$ 71,450	$ 320,417	$ 292,393

1. Addback items are derived from the historical financial statements of the Company.
2. Adjusted EBITDA is not a recognized earnings measure and does not have standardized meaning prescribed by IFRS. Therefore, Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See “Definitions of Adjusted EBITDA, ROIC and Free Cash Flow” above. Management believes that Adjusted EBITDA is a useful supplemental measure 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 costs of assessing strategic and corporate initiatives.
5. Normalized to exclude non-recurring expenses associated with transitional costs related to acquired subsidiary companies.
6. As a result of the revaluation of MCI's assets and liabilities as a consequence of the acquisition of MCI in December 2015, $11.4 million was allocated to inventory and $1.2 million was eliminated from deferred revenue as a fair value adjustment. This resulted in a non-cash charge to cost of goods sold and revenue upon the culmination of the earnings process. As well, the revaluation of ARBOC's inventory included an adjustment of $0.5 million of which $0.3 million impacted 2018 Q1 net earnings.
7. The fair value adjustment of the total return swap is a non-cash gain that is deducted from the definition of Adjusted EBITDA.
8. A portion of the gain from the fair value adjustment of the total return swap is added to Adjusted EBITDA to match the equivalent portion of the related deferred compensation expense recognized.
9. A new collective bargaining agreement at the Company's Winnipeg facility commenced on April 1, 2018 which included retroactive changes to NFI ULC's Canadian 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 2018 by $5,810 to reflect pension benefits provided to employees for past service.

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 NFI's ability to pay dividends on the Shares, 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 from 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 Adjusted EBITDA, ROIC and Free Cash Flow".

(Unaudited, U.S. dollars in thousands, except per Share figures)	13-Weeks Ended April 1, 2018	13-Weeks Ended April 2, 2017	52-Weeks Ended April 1, 2018	52-Weeks Ended April 2, 2017
Net cash generated from operating activities	$ 16,875	$ 89,634	$ 99,300	$ 212,149
Changes in non-cash working capital items(3)	24,873	(43,671)	75,605	(24,669)
Interest paid(3)	5,216	4,812	19,159	22,330
Interest expense(3)	(5,345)	(4,910)	(19,720)	(21,405)
Income taxes paid(3)	17,958	15,826	108,009	69,613
Current income tax expense(3)	(14,912)	(19,273)	(76,755)	(81,575)
Principal portion of finance lease payments	(1,067)	(920)	(4,262)	(3,462)
Cash capital expenditures	(11,865)	(6,345)	(58,333)	(28,046)
Proceeds from disposition of property, plant and equipment	24	358	192	358
Costs associated with assessing strategic and corporate initiatives(7)	46	94	3,645	574
Non-recurring transitional costs relating to business acquisition(8)	—	—	(435)	390
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue (9)	266	—	532	2,352
Defined benefit funding(4)	9,213	4,759	15,930	12,131
Defined benefit expense(4)	(7,155)	(1,261)	(11,044)	(4,571)
Past service costs(11)	5,810	—	5,810	—
Gain received on total return swap settlement	—	—	—	(509)
Proportion of the total return swap(10)	460	1,290	3,134	2,877
Foreign exchange gain (loss) on cash held in foreign currency(5)	279	(33)	772	(274)
Free Cash Flow (US$)(1)	40,676	40,360	161,539	158,263
U.S. exchange rate(2)	1.2894	1.3299	1.2733	1.3170
Free Cash Flow (C$)(1)	**52,448**	**53,675**	**205,695**	**208,428**
Free Cash Flow per Share (C$)(6)	0.8331	0.8680	3.2772	3.4246
Declared dividends on Shares (C$)	**20,466**	**14,731**	**81,817**	**58,299**
Declared dividends per Share (C$)(6)	$ 0.3250	$ 0.2375	$ 1.3050	$ 0.9399

(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 Adjusted EBITDA, ROIC and Free Cash Flow".

(2) U.S. exchange rate (C$ per US$) is the weighted average exchange rate applicable to dividends declared 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 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$) are determined by dividing Free Cash Flow by the total number of all issued and outstanding Shares using the weighted average over the period. The weighted average number of Shares outstanding for 2018 Q1 was 62,953,316 and 62,765,854 for the 52-weeks ended April 1, 2018. The weighted average number of Shares outstanding for 2017 Q1 was 61,840,328 and 60,682,098 for the 52-weeks ended April 2, 2017. Per Share calculations for declared dividends (C$) 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) Normalized to exclude non-recurring expenses associated with transitional costs related to acquired subsidiary companies.

(9) As a result of the revaluation of MCI's assets and liabilities as a consequence of the acquisition of MCI in December 2015, $11.4 million was allocated to inventory and $1.2 million was eliminated from deferred revenue as a fair value adjustment. This resulted in a non-cash charge to cost of goods sold and revenue upon the culmination of the earnings process. As well, the revaluation of ARBOC's inventory included an adjustment of $0.5 million of which $0.3 million impacted 2018 Q1 net earnings.

(10) A portion of the fair value adjustment of the total return swap is added to Free Cash Flow to match the equivalent portion of the related deferred compensation expense recognized.

(11) A new collective bargaining agreement at the Company's Winnipeg facility commenced on April 1, 2018 which included retroactive changes to NFI ULC's Canadian 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 2018 by $5,810 to reflect pension benefits provided to employees for past service.

Capital Allocation Policy

The Company has established a capital allocation policy based on an operating model providing consistent and predictable cash flow and maintaining a strong balance sheet. This policy has established guidelines that are reviewed by the Board on a quarterly basis and provides targets for maintaining financial flexibility, business investment, and return of capital to shareholders.

Maintaining Financial Flexibility

The Company plans to prudently use leverage to manage liquidity risk. 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 motor coach manufacturing industry, purchase contracts are customer specific and contain varied terms and conditions, including terms related to the timing of payments made under such contracts. As such, the timing of payments of the Company's accounts receivable is not always consistent or predictable, which may result in the Company drawing on the Revolver to meet working capital requirements.

In addition, coach sales to commercial customers tends to be seasonal with the highest level of deliveries occurring in the fourth fiscal quarter of each year. The Company manages this seasonality both through schedule production shutdowns in the first and third fiscal quarters of each year and through the build up of completed coaches in inventory during the year to meet year-end demand. This seasonality results in investments in inventory during the year, which may result in drawing on its Revolver to meet working capital requirements.

The April 1, 2018 liquidity position of $204.1 million is comprised of available cash of $15.3 million and $188.8 million available under the Revolver as compared to a liquidity position of $222.3 million at December 31, 2017. The decreased liquidity relates to changes in non-cash working capital. Changes in non-cash working capital are primarily a result of seasonality and are expected to be temporary in nature. As at April 1, 2018, there were $139.3 million of direct borrowings and $14.9 million of outstanding letters of credit related to the $343.0 million Revolver.

Management believes that these funds, together with other borrowings capacity and the cash generated from the Company`s operating activities, and access to capital markets for debt and equity issuances, 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. Within the capital allocation policy, management has targeted to maintain leverage between 2 times and 2.5 times Adjusted EBITDA. The Company however, would increase leverage beyond this range to fund accretive acquisitions that are capable of reducing leverage through earnings. This was the case in

2013 when the Company acquired NABI-Optima Holdings Inc. and again in 2015 when the Company acquired MCI. Leverage is defined as debt (net of cash) divided by Adjusted EBITDA.

There are certain financial covenants under the Credit Facility that must be maintained. These financial covenants include an interest coverage ratio and a total leverage ratio. The total leverage ratio reduced to less than 3.50 beginning January 1, 2018. At April 1, 2018, the Company was in compliance with the ratios. The results of the financial covenant tests as of such date are as follows:

	April 1, 2018	December 31, 2017
Total Leverage Ratio (must be less than 3.50)	1.90	1.84
Interest Coverage Ratio (must be greater than 3.00)	16.68	17.15

Business Investment

The Company plans to invest in the current business and future growth and will continue to invest in lean manufacturing operations to improve quality and cost effectiveness. In addition, business acquisitions will be considered to further grow and diversify the consolidated business and to contribute to the long-term competitiveness and stability of the Company. Investment decisions are based on several criteria, including but not limited to: investment required to maintain or enhance operations; enhancement of cost effectiveness through vertical integration of critical supply and sub-assembly in-sourcing; and acquisitions in current or adjacent markets that are considered accretive to the business.

Return of Capital to Shareholders

The Company intends to have a 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.

The Company`s Free Cash Flow translates to C$52.4 million in 2018 Q1 compared to declared dividends of C$20.5 million during this period. For 2018 Q1 LTM, Free Cash Flow translates to C$205.6 million compared to declared dividends of C$81.9 million. In comparison to 2017 Q1 LTM, Free Cash Flow measured in Canadian dollars decreased by 1.3% while dividends increased by 40.3%. This resulted in an annual payout ratio of 39.0% and 28.0% in 2018 Q1 LTM and 2017 Q1 LTM, respectively.

Based on the improvement in business performance as well as the Company's outlook, the Company's board of directors (the "Board") has approved an increase of 15.4% in the annual dividend rate. The new annual dividend rate of C$1.50 per Share is effective for dividends declared after May 9, 2018. The Board believes that the new dividend rate has been established at a sustainable level, although such distributions are not assured.

Currency Impact on the Company's Reported Results

The Financial Statements are presented in U.S. dollars ("USD"). The Company 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 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 CAD.

The impact of a weaker CAD against the USD is largely dependent on the Company’s revenue mix by currency as operating costs denominated in CAD 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 SG&A costs have significant CAD denominated costs. During 2018 Q1, approximately 91% of revenue was USD denominated and approximately 9% was CAD denominated. As at April 1, 2018, the backlog consisted of firm CAD orders of 657 EUs ($250.2 million U.S. equivalent) representing approximately 16.4% of firm orders. Canadian options at April 1, 2018 totaled 318 EUs ($132.2 million U.S. equivalent) representing approximately 4.2% of the option backlog. 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 2018. 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 expected 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 management has elected not to use hedge accounting. During 2018 Q1, the Company recorded a realized foreign exchange gain of $0.5 million (2017 Q1: $0.8 million loss).

At April 1, 2018, the Company had $90 million of foreign exchange forward and option contracts to buy Canadian dollars with U.S. dollar at an average agreed exchange rate of $0.80. These foreign exchange contracts range in expiry dates from May 2018 to September 2018. The related liability of $2.1 million (2017: $0.1 million) is recorded on the unaudited interim consolidated statements of financial position as a current derivative financial instruments liability and the corresponding change in the fair value of the foreign exchange forward contracts has been recorded in the unaudited interim consolidated statements of net earnings and total comprehensive income.

Fiscal and Interim Periods

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

	Period from January 1, 2018 to December 30, 2018 ("Fiscal 2018")		**Period from January 2, 2017 to December 31, 2017 ("Fiscal 2017")**	
	Period End Date	# of Calendar Weeks	Period End Date	# of Calendar Weeks
Quarter 1	April 1, 2018	13	April 2, 2017	13
Quarter 2	July 1, 2018	13	July 2, 2017	13
Quarter 3	September 30, 2018	13	October 1, 2017	13
Quarter 4	December 30, 2018	13	December 31, 2017	13
Fiscal year	December 30, 2018	52	December 31, 2017	52

Results of Operations

The Company's operations are divided into two business segments: manufacturing operations and aftermarket operations. Organizational changes to better align business functions within operating segments were made effective January 2, 2017. This organizational change was implemented in two phases. In 2017, over-the-counter parts sales were moved from the coach operations to aftermarket operations. In 2018 the service function, comprised of technical service management and customer training, which was previously managed by the aftermarket operations, of MCI only, was moved to the coach manufacturing operations. To improve the comparability between periods, the related prior year segment information has been restated to reflect these changes.

(U.S. dollars in thousands)	**2017 Q1 (13-Weeks)**	**2017 Q2 (13-Weeks)**	**2017 Q3 (13-Weeks)**	**2017 Q4 (13-Weeks)**	**Fiscal 2017 (52-weeks)**
Revenue related to service function	$ 0	$ 0	$ 0	$ 0	$ 0
Loss from operations related to service function	(1,861)	(1,841)	(2,089)	(2,075)	(7,866)
Manufacturing Adjusted EBITDA related to service function	$ (1,861)	$ (1,841)	$ (2,089)	$ (2,075)	$ (7,866)

The discussion below with respect to revenue, operating costs and expenses and earnings from operations has been divided between the manufacturing and aftermarket operations segments.

(U.S. dollars in thousands)	**2018 Q1 (13-Weeks)**	2017 Q1 (13-Weeks) (restated)
Manufacturing Revenue	$ 478,579	$ 475,933
Aftermarket Revenue	100,055	96,214
Total Revenue	$ 578,634	$ 572,147
Earnings from Operations	51,753	59,203
Earnings before interest and income taxes	48,646	60,530
Earnings before income tax expense	44,896	56,566
Net earnings for the period	30,356	37,904

Revenue

The Company generated consolidated revenue of $578.6 million for 2018 Q1, an increase of 1.1% compared to consolidated revenue for 2017 Q1 of $572.1 million.

Revenue from manufacturing operations for 2018 Q1 was $478.6 million, an increase of 0.6% from $475.9 million in 2017 Q1. The increase in the 2018 Q1 revenue primarily resulted from a 11.3% increase in total new deliveries of 993 EUs in 2018 Q1 compared to 2017 Q1 deliveries of 892 EUs as well as the inclusion of the revenue to third parties for the fiberglass reinforced polymer components. This was offset by a 9.8% decrease in average selling price per EU in 2018 Q1 of $474.0 thousand compared to $525.6 thousand in 2017 Q1. Manufacturing business revenue for 2018 Q1 of $478.6 million is $6.2 million lower when compared to proforma manufacturing business revenue (which includes ARBOC) for 2017 Q1. Volume increased as a result of higher transit bus deliveries and the inclusion of ARBOC deliveries offset by a reduction in motor coach deliveries. Motor coach deliveries are seasonal, with comparatively strong fourth and softer first quarters; however 2017 Q1 deliveries were stronger as a result of recovering New Jersey Transit deliveries following the contract deferral in 2016. Additionally, management believes tax changes in the U.S., related to accelerated depreciation, resulted in a seasonably stronger 2017 Q4, followed by a weaker 2018 Q1. The decrease in average selling price is the result of normal volatility as well as changes in the product sales mix which now includes ARBOC's units which have a substantially lower selling price than the average heavy-duty transit bus or motor coach.

Deliveries (EUs)	**2018 Q1**	2017 Q1	% change
Transit buses	671	651	3.1 %
Motor coaches	187	241	(22.4)%
Medium-duty and cutaway buses	135	—	100.0 %
Total new deliveries	993	892	11.3 %
Pre-owned coach deliveries	64	65	(1.5)%

Consolidated Revenue (U.S. dollars in millions)	**2018 Q1**	2017 Q1	% change
Transit buses	$ 357.8	$ 343.5	4.2 %
Motor coaches	97.7	125.3	(22.0)%
Medium-duty and cutaway buses	11.1	—	100.0 %
Total new transit bus, coach and cutaway revenue	$ 466.6	$ 468.8	(0.5)%
Pre-owned coach revenue	8.1	7.1	14.1 %
Fiberglass reinforced polymer components	3.9	—	100.0 %
Manufacturing Revenue	478.6	475.9	0.6 %

Revenue from aftermarket operations in 2018 Q1 of $100.1 million increased by 4.1% compared to $96.2 million during 2017 Q1.

Cost of sales

The consolidated cost of sales for 2018 Q1 of $472.0 million increased by 0.9% from 2017 Q1 consolidated cost of sales of $468.0 million. This increase primarily relates to the corresponding increase in revenues and the addition of ARBOC operations.

Cost of sales from manufacturing operations consists of direct contract costs and manufacturing overhead. The cost of sales from manufacturing operations for 2018 Q1 of 400.4 million (83.6% of revenue from manufacturing operations) decreased 0.1% compared to the $402.3 million (83.7% of revenue from manufacturing operations) in 2017 Q1. The change in cost of sales primarily relates to the corresponding decrease in motor coach deliveries offset by customer mix fluctuations and continued cost reductions through the Company's Operational Excellence initiatives, including increased insourcing of material fabrication and the material cost savings achieved as a result of the MCI acquisition in December 2015.

The cost of sales from aftermarket operations of $71.7 million (71.6% of aftermarket operations revenue) in 2018 Q1 increased 9.1% compared to $65.7 million (68.3% of aftermarket operations revenue) in 2017 Q1 primarily as a result of increased aftermarket volume at pressured margins when comparing the two periods. Although part sales remain difficult to forecast, management expects the parts market to remain relatively stable in Fiscal 2018. Management believes the increase in gross orders received of 1.2% in 2018 Q1 as compared to 2017 Q1 is promising but, will be subject to quarter-to-quarter volatility which is typical for this business segment. The Company continues to focus on its established customer base to provide best value and support and also continues to investigate incremental business programs such as vendor managed inventory contracts which are anticipated to be at lower margins. The Company previously announced it is closing a redundant parts distribution center in Hebron, KY in July 2018 and continues to assess further opportunities for cost reduction once the New Flyer and MCI Parts businesses are fully harmonized with a common IT system - expected to be completed in the second half of 2018.

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

The consolidated SG&A for 2018 Q1 of $55.4 million (9.6% of revenue) increased 25.4% compared with $44.1 million (7.7% of revenue) in 2017 Q1. The increase in the 2018 Q1 SG&A was primarily as a result of a $5.8 million past service cost adjustment based on the collective bargaining agreement which was ratified by the New Flyer collective bargaining unit in Winnipeg on April 8, 2018, as well as the inclusion of both ARBOC and the revenue to third parties for the fiberglass reinforced polymer components operations.

Realized foreign exchange loss/gain

During 2018 Q1, the Company recorded a realized foreign exchange gain of $0.5 million (2017 Q1: $0.8 million loss) as a result of translation of the Company's Canadian dollar denominated working capital and realized gains/losses on foreign exchange forward or option contracts.

Earnings from operations

Consolidated earnings from operations for 2018 Q1 in the amount of $51.8 million (8.9% of revenue) decreased 12.6% compared to earnings from operations in 2017 Q1 of $59.2 million (10.3% of revenue).

The earnings from manufacturing operations (including amortization and depreciation) for 2018 Q1 of $33.7 million (7.0% of manufacturing revenue) decreased 11.9% compared to earnings of $38.2 million for 2017 Q1 (8.0% of manufacturing revenue). This decrease primarily relates to increases in SG&A as a result of the $5.8 million charge for past service costs.

The earnings from aftermarket operations of $18.1 million (18.1% of aftermarket revenue) in 2018 Q1 decreased 13.8% compared to 2017 Q1 earnings of $21.0 million (21.8% of aftermarket revenue). The decrease in earnings from aftermarket operations is primarily a result of increases in cost of sales.

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)		**2018 Q1**		**2017 Q1**
Unrealized (gain) loss on forward foreign exchanges contracts	$	3,576	$	(1,235)
Unrealized (gain) loss on other long-term monetary assets/liabilities		(455)		146
	$	3,121	$	(1,089)

Earnings before interest and income taxes ("EBIT")

In 2018 Q1, the Company recorded EBIT of $48.7 million compared to EBIT of $60.5 million in 2017 Q1. EBIT has been impacted by non-cash and non-recurring items as follows:

(Unaudited, U.S. dollars in thousands)		**2018 Q1**		**2017 Q1**
Non-cash and non-recurring charges:				
Costs associated with assessing strategic and corporate initiatives	$	46	$	94
Unrealized foreign exchange gain (loss)		3,121		(1,089)
Equity settled stock-based compensation		469		422
Gain on disposition of property, plant and equipment		(14)		(238)
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue		266		—
Fair value adjustment of total return swap		460		(2,778)
Past service costs		5,810		—
Amortization		16,668		13,219
Total non-cash and non-recurring charges:	$	26,826	$	9,630

Absent these non-cash and non-recurring charges, the 2018 Q1 EBIT would have been $75.5 million compared to $70.1 million in 2017 Q1.

Interest and finance costs

The interest and finance costs for 2018 Q1 of $3.8 million decreased 5.4% when compared to $4.0 million in 2017 Q1. The decrease in interest expense when comparing the two periods was primarily as a result of an improved leverage ratio which in turn improved the all-in interest rate charged by the lenders under the Credit Facility, and a gain on the fair value adjustment on the interest rate swap offset by an increase in interest caused by the increased level of borrowing on the Revolver to facilitate the acquisition of ARBOC.

Earnings before income taxes ("EBT")

EBT for 2018 Q1 of $44.9 million decreased compared to EBT of $56.6 million in 2017 Q1. The difference in the EBT between these periods results primarily from the decreased EBIT.

Income tax expense

The income tax expense for 2018 Q1 was $14.5 million, consisting of $14.9 million of current income tax expense offset by $0.4 million of deferred income tax expense recovered. In comparison, the income tax expense for 2017 Q1 was $18.7 million, consisting of $19.3 million of current income tax expense and $0.6 million of deferred income tax recovery. Current income tax expense recorded in 2018 Q1 decreased by $4.4 million primarily due to decreased EBT.

Public Law 115-97, commonly referred to as the Tax Cuts and Jobs Act, was enacted on December 22, 2017. The legislation, which is generally effective for tax years beginning after December 31, 2017, represents significant U.S. tax reform and revises the Internal Revenue Code by, among other things, lowering the corporate federal income tax rate from 35% to 21%, eliminating the domestic production activities deduction, and modifying how the U.S. taxes multinational entities.

The effective tax rate ("ETR") for 2018 Q1 of 32.4% decreased by 0.6% compared to ETR of 33.0% in 2017 Q1. The ETR decreased due to U.S. Tax Reform mostly offset by increases in state taxes and limitations on the utilization of foreign tax credits.

Net earnings

The Company reported net earnings of $30.4 million in 2018 Q1, a decrease of 19.8% compared to net earnings of $37.9 million in 2017 Q1. The decreased net earnings in 2018 Q1 are primarily as a result of the following events: $3.9 million past service cost adjustment (net of tax) related to a collective bargaining agreement which commenced on April 1, 2018 and a $2.8 million (net of tax) unrealized foreign exchange loss on non-current monetary items. The impact of these events to net earnings per share was $0.11. The Company's net earnings per Share in 2018 Q1 of $0.48 decreased 21.3% from net earnings per Share of $0.61 generated in 2017 Q1.

Cash Flow

The cash flows of the Company are summarized as follows:

(Unaudited, U.S. dollars in thousands)		2018 Q1		2017 Q1
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	$	64,922	$	66,601
Interest paid		(5,216)		(4,812)
Income taxes paid		(17,958)		(15,826)
Net cash earnings		41,748		45,963
Changes in non-cash working capital items		(24,873)		43,671
Cash flow generated from operating activities		16,875		89,634
Cash flow generated (used in) financing activities		19,924		(70,635)
Cash flow used in investing activities		(11,846)		(6,029)

Cash flows from operating activities

The 2017 Q1 net operating cash inflow of $16.9 million is the result of $41.7 million of net cash earnings and a decrease in non-cash working capital of $24.9 million, compared to 2017 Q1 net operating cash inflow of $89.6 million resulting from $46.0 million of net cash earnings and an increase in non-cash working capital of $43.7 million. Changes in non-cash working capital are primarily a result of seasonality and are expected to be temporary in nature.

Cash flow from financing activities

The cash inflow during 2018 Q1 primarily related to total draws against the Revolver of $37.3 million and the payment of $16.3 million in dividends.

Cash flow from investing activities

2018 Q1 investing activities resulted in a net cash outflow of $11.9 million compared to a net cash outflow of $6.0 million in 2017 Q1 primarily resulting from PPE expenditures as follows:

(Unaudited, U.S. dollars in thousands)		2018 Q1		2017 Q1
PPE expenditures	$	16,945	$	6,691
Less PPE expenditures funded by capital leases		(5,080)		(346)
Cash acquisition of PPE reported on statement of cash flows	$	11,865	$	6,345

The increase in 2018 Q1 PPE expenditures when compared to 2017 Q1, is due to increased level of investment into MCI's operations, expansion of our Anniston, AL facility as well as the recent creation of the parts fabrication facility in Kentucky which is expected to continue over the next year.

Interest rate risk

On January 22, 2016, the Company entered into an 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 1.154% plus the applicable interest margin until December 2019. The fair value of the interest rate swap asset of $9.4 million at 2018 Q1 (2017 Q1: $5.9 million) was recorded on the unaudited interim consolidated statements of financial position as a derivative financial instruments asset 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 transit buses, coaches or cutaways typically comes from the Federal Transit Administration, while the remaining 20% comes from state and municipal sources. There are a few U.S. public sector customers that obtain 100% of their funding 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, transit buses or cutaways 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, and in some cases it provides financing through a recently established ultimate net loss pool. 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 1, 2018		December 31, 2017
Current, including holdbacks	$	349,453	$	361,805
Past due amounts but not impaired				
1 – 60 days		31,730		22,306
Greater than 60 days		5,069		2,878
Less: allowance for doubtful accounts		(738)		(522)
Total accounts receivables, net	$	385,514	$	386,467

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 1, 2018:

US dollars in thousands	Total	2018	2019	2020	2021	2022	Post 2022
Term credit facility	$ 510,966	$ 12,653	$ 498,313	$ 0	$ –	$ –	$ –
Other long-term liabilities	2,107	1,000	1,107	—	—	—	—
Finance leases	18,992	4,706	5,765	4,164	2,735	1,351	271
Accrued benefit liability	14,689	13,835	538	316	—	—	—
Operating leases	86,591	9,277	11,780	10,600	10,205	8,410	35,320
	$ 632,346	$ 41,471	$ 517,503	$ 15,080	$ 12,940	$ 9,761	$ 35,591

As at April 1, 2018, outstanding surety bonds guaranteed by the Company amounted to $352.7 million, representing an increase compared to $327.3 million at December 31, 2017. The estimated maturity dates of the surety bonds outstanding at April 1, 2018 range from April 2018 to August 2020. 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 1, 2018, letters of credit amounting to $14.9 million (December 31, 2017: $8.8 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 1, 2018.

Stock Option Plan

The Board adopted a Share Option Plan (the "Option Plan") for NFI on March 21, 2013 (and amended and restated 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	(460,791)	–	(29,565)	–	March 26, 2021	C$10.20	C$1.55
December 30, 2013	612,050	(402,290)	(9,631)	(200,129)	–	December 30, 2021	C$10.57	C$1.44
December 28, 2014	499,984	(118,014)	(11,368)	(249,395)	121,207	December 28, 2022	C$13.45	C$1.83
December 28, 2015	221,888	(11,672)	—	(99,276)	110,940	December 28, 2023	C$26.75	C$4.21
September 8, 2016	2,171	—	—	(543)	1,628	September 8, 2024	C$42.83	C$8.06
January 3, 2017	151,419	(1,600)	—	(36,257)	113,562	January 3, 2025	C$40.84	C$7.74
January 2, 2018	152,883				152,883	January 2, 2026	C$54.00	C$9.53
	2,130,751	(994,367)	(20,999)	(615,165)	500,220		C$24.65	

The following reconciles the stock options outstanding:

	Fiscal 2018		Fiscal 2017	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance at beginning of period	979,333	C$19.94	1,175,099	C$14.70
Granted during the period	152,883	C$54.00	151,419	C$40.84
Expired during the period	–	–	–	–
Exercised during the period	(16,831)	C$17.44	(347,185)	C$11.31
Balance at end of period	1,115,385	C$24.65	979,333	C$19.94

Restricted Share Unit Plan for Non-Employee Directors

Pursuant to the Company's Restricted Share Unit Plan for Non-Employee Directors, a maximum of 500,000 Shares are reserved for issuance to non-employee directors. The Company issued approximately $226.6 thousand of director restricted share units ("Director RSUs") in 2018 Q1. Of these Director RSUs issued, approximately $159.2 thousand were exercised and exchanged for 3,561 Shares.

Equity risk

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, deferred share units and Director RSU's. The total return swap has a re-investment feature which increases the number of Shares in the swap when dividends are paid by the Company. As at April 1, 2018, the Company held a total return swap derivative financial instrument with a position of 435,905 Shares at a weighted average price of C$34.36. The Company does not apply hedge accounting to these derivatives 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.

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, rarely 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, PPE, 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 four Cash Generating Units (“CGUs”) for the purpose of impairment testing: bus manufacturing, motor coach manufacturing, cutaway manufacturing and aftermarket parts operations. The Company performs its annual test for impairment of goodwill and trade names in the fourth fiscal quarter of each year. With regards to the goodwill acquired as part of the ARBOC 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 management 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 management 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. It is possible however, 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 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 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 OEM as set out in IAS 18.

Functional currency

Management assessed the criteria for the determination of functional currency as set out in IAS 21. An entity is required to place the greatest weight on the currency that influences the pricing of the transactions that it undertakes rather than 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 four CGUs: bus manufacturing, motor coach manufacturing, cutaway manufacturing and aftermarket parts operations.

2.4 New and amended standards adopted by the Company

IFRS 9 – Financial Instruments:

The Company has adopted IFRS 9 Financial Instruments as of January 1, 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement.

The details and quantitative impact of the changes in accounting policies are disclosed below.

- IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income and fair value through profit or loss. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, financial asset derivatives are never bifurcated. Refer to the table below for a summary of the classification changes upon transition to IFRS 9.

- IFRS 9 sets out a new forward looking 'expected loss' impairment model which replaces the incurred loss model in IAS 39 and applies to financial assets measured at amortized cost, contract assets and debt investments at fair value through other comprehensive income. Under the IFRS 9 'expected loss' model, a credit event no longer has to occur before credit losses are recognized. An assessment was performed to determine the expected credit loss of financial assets and the Company determined the expected credit loss to be not material.

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and liabilities as at January 1, 2018.

	Original classification under IAS 39	New classification under IFRS 9
Cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Deposits	Loans and receivables	Amortized cost
Accounts payables and accrued liabilities	Loans and receivables	Amortized cost
Other long-term liabilities	Loans and receivables	Amortized cost
Long-term debt	Loans and receivables	Amortized cost
Derivative financial instruments	Fair value through profit or loss	Fair value through profit or loss

The implementation of IFRS 9 had no material impact on the Company's financial statements.

IFRS 15 - Revenue from Contracts with Customers:

The Company has adopted IFRS 15 Revenue from Contracts with Customers as of January 1, 2018. In accordance with the transition provisions in IFRS 15, the Company has elected to apply the new rules retrospectively whereby the transitional adjustment is recognized in retained earnings, if any, with adjustment of comparatives.

The Company's manufacturing operations recognizes revenue from the sale of its new transit buses, coaches or cutaway's when control passes to the customer. However, in some contracts, a portion of the selling price includes the revenue for contract spares and training in which the goods and services are delivered to the customer on a separate date. IFRS 15 requires that the Company assesses the goods or service promised in contract with a customer and identify as a performance obligation each promise to transfer to the customer a good or service that is distinct. As per the Company's assessment, the delivery of contract spares and training meets the criteria of goods or service being distinct as it is separately identifiable and the customer benefits from the good or service separate from the new transit buses, coaches or cutaway. Hence, with the adoption of IFRS 15, the revenue from contract spares and training is deferred and recognized to revenue when provided to the customer.

Prior to adoption of IFRS 15, accrual for the cost of the contract spares and training are recorded at that time of delivery of the new transit buses, coaches or cutaway's and depleted when provided to the customer. As there is no margin on contract spares and training, the accrual amount approximates the deferred revenue as the reversal of the accrual of cost of goods sold equals the reversal of revenue that need to be set up as deferred. Hence, there is no retained earnings impact in the transitional adjustment and only affects certain statements of financial position accounts as shown below:

	As reported December 31, 2017	Transition adjustments	As restated January 1, 2018
Accounts payable and accrued liabilities	$ 319,436	$ (6,876)	$ 312,560
Current portion of deferred revenue	27,255	6,876	34,131

Future Changes to Accounting Standards

The following 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 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 31, 2017 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 Carlson and ARBOC, as they were 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 2018 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 Carlson and ARBOC, as they were 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 31, 2017 were effective.

On June 1, 2017, the Company acquired Carlson for net cash consideration of approximately $11.4 million. During the period between the June 1, 2017 acquisition date and December 31, 2017, Carlson generated net consolidated revenues of approximately $3.0 million and total comprehensive income of approximately $2.1 million (including a $1.2 million gain on bargain purchase of the net assets of SWC), which have been recorded in the audited consolidated statements of net earnings and comprehensive income for Fiscal 2017.

A summary of the assets acquired and liabilities assumed is as follows:

(Unaudited, U.S. dollars in thousands)		
Current assets	$	3,725
Non-current assets		13,029
Current liabilities		(3,490)
Non-current liabilities		(1,825)
Cash purchase price	$	11,439

On December 1, 2017, the Company acquired ARBOC for net cash consideration of approximately $96.6 million. During the period between the December 1, 2017 acquisition date and December 31, 2017, ARBOC generated net consolidated revenues of approximately $2.4 million and total comprehensive income of approximately $7.4 million, which have been recorded in the audited consolidated statements of net earnings and comprehensive income for Fiscal 2017.

A summary of the assets acquired and liabilities assumed is as follows:

(Unaudited, U.S. dollars in thousands)		
Current assets	$	8,862
Non-current assets		118,635
Current liabilities		(3,789)
Non-current liabilities		(27,084)
Cash purchase price	$	96,624

Unaudited Interim Condensed Consolidated Financial Statements of

NEW FLYER INDUSTRIES INC.

April 1, 2018

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NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET EARNINGS AND TOTAL COMPREHENSIVE INCOME

For the period ended April 1, 2018

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

	13-Weeks Ended April 1, 2018	13-Weeks Ended April 2, 2017
Revenue (note 11)	$ 578,634	$ 572,147
Cost of sales (note 4)	472,027	467,978
Gross profit	106,607	104,169
Sales, general and administration costs and other operating expenses	55,357	44,130
Foreign exchange loss (gain)	(503)	836
Earnings from operations	51,753	59,203
Gain on disposition of property, plant and equipment	(14)	(238)
Unrealized foreign exchange loss (gain) on non-current monetary items	3,121	(1,089)
Earnings before interest and income taxes	48,646	60,530
Interest and finance costs		
Interest on long-term debt and convertible debentures	3,267	3,660
Accretion in carrying value of long-term debt and convertible debentures	395	426
Other interest and bank charges	2,078	1,250
Fair market value gain on interest rate swap	(1,990)	(1,372)
	3,750	3,964
Earnings before income tax expense	44,896	56,566
Income tax expense (note 5)		
Current income taxes	14,912	19,273
Deferred income taxes recovered	(372)	(611)
	14,540	18,662
Net earnings for the period	$ 30,356	$ 37,904
Other comprehensive income (loss)		
Actuarial income (loss) on defined benefit pension plan - this item will not be reclassified subsequently to profit or loss	2,080	(333)
Total comprehensive income for the period	$ 32,436	$ 37,571
Net earnings per share (basic) (note 8)	$ 0.48	$ 0.61
Net earnings per share (diluted) (note 8)	$ 0.48	$ 0.61

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 1, 2018
(unaudited, in thousands of U.S. dollars)

		April 1, 2018		December 31, 2017 (restated notes 2.4, 14)
Assets				
Current				
Cash	$	15,294	$	—
Accounts receivable (note 3,10 e)		385,514		386,467
Income tax receivable		20,822		24,911
Inventories (note 4)		419,700		359,482
Derivative financial instruments (note 10 b,c)		8,245		8,217
Prepaid expenses and deposits		14,031		15,253
		863,606		794,330
Property, plant and equipment		195,866		186,873
Derivative financial instruments (note 10 b,c)		9,413		7,422
Goodwill and intangible assets		976,367		985,962
	$	2,045,252	$	1,974,587
Liabilities				
Current				
Bank indebtedness	$	—	$	9,938
Accounts payable and accrued liabilities		352,259		312,560
Income tax payable		—		7,328
Derivative financial instruments (note 10 b,c)		2,144		—
Current portion of long-term liabilities (note 14)		91,505		93,359
		445,908		423,185
Accrued benefit liability		14,893		19,804
Obligations under finance leases		12,356		9,400
Deferred compensation obligation		6,806		10,083
Deferred revenue		9,469		8,697
Other long-term liabilities		1,107		1,107
Provisions (note 13)		62,541		65,266
Deferred tax liabilities (note 5)		88,777		88,453
Long-term debt (note 6)		618,458		580,763
		1,260,315		1,206,758
Commitments and contingencies (note 12)				
Shareholders' equity				
Share capital (note 7)		665,796		665,602
Stock option and restricted share unit reserve		5,074		4,724
Accumulated other comprehensive loss		(7,796)		(9,876)
Retained earnings		121,863		107,379
		784,937		767,829
	$	2,045,252	$	1,974,587

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 9, 2018.

NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the period ended April 1, 2018

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

	Share Capital	Equity Component of Convertible Debentures	Stock Option and Restricted Share Unit Reserve	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Total Shareholders' Equity
Balance, January 1, 2017	**$ 653,671**	**$ 481**	**$ 3,514**	**$ (3,034)**	**$ (24,465)**	**$ 630,167**
Net earnings	—	—	—	—	37,904	37,904
Other comprehensive loss	—	—	—	(333)	—	(333)
Dividends declared on common shares	—	—	—	—	(11,077)	(11,077)
Share-based compensation, net of deferred income taxes	—	—	710	—	—	710
Shares issued	293	—	(77)	—	—	216
Conversion of debentures to common shares	2,107	(120)	—	—	—	1,987
Balance, April 2, 2017	**$ 656,071**	**$ 361**	**$ 4,147**	**$ (3,367)**	**$ 2,362**	**$ 659,574**
Net earnings	—	—	—	—	153,464	153,464
Other comprehensive loss	—	—	—	(6,509)	—	(6,509)
Dividends declared on common shares	—	—	—	—	(48,447)	(48,447)
Share-based compensation, net of deferred income taxes	—	—	1,114	—	—	1,114
Shares issued	3,254	—	(537)	—	—	2,717
Conversion of debentures to common shares	6,277	(361)	—	—	—	5,916
Balance, December 31, 2017	**$ 665,602**	**$ 0**	**$ 4,724**	**$ (9,876)**	**$ 107,379**	**$ 767,829**
Net earnings	—	—	—	—	30,356	30,356
Other comprehensive income	—	—	—	2,080	—	2,080
Dividends declared on common shares	—	—	—	—	(15,872)	(15,872)
Share-based compensation, net of deferred income taxes	—	—	544	—	—	544
Shares issued	194	—	(194)	—	—	0
Balance, April 1, 2018	**$ 665,796**	**$ 0**	**$ 5,074**	**$ (7,796)**	**$ 121,863**	**$ 784,937**

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 1, 2018

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

	13-Weeks Ended April 1, 2018	13-Weeks Ended April 2, 2017
Operating activities		
Net earnings for the period	$ 30,356	$ 37,904
Income tax expense	14,540	18,662
Depreciation of plant and equipment	7,068	6,041
Amortization of intangible assets	9,600	7,178
Share-based compensation	469	422
Interest and finance costs recognized in profit or loss	3,750	3,964
Fair value adjustment for total return swap	(1,631)	(2,778)
Unrealized foreign exchange loss (gain) on non-current monetary items	3,121	(1,089)
Foreign exchange loss (gain) on cash held in foreign currency	(279)	33
Gain on disposition of property, plant and equipment	(14)	(238)
Defined benefit expense	7,155	1,261
Defined benefit funding	(9,213)	(4,759)
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	64,922	66,601
Changes in non-cash working capital items (note 9)	(24,873)	43,671
Cash generated from operating activities before interest and income taxes paid	40,049	110,272
Interest paid	(5,216)	(4,812)
Income taxes paid	(17,958)	(15,826)
Net cash generated from operating activities	16,875	89,634
Financing activities		
Repayment of obligations under finance leases	(1,067)	(920)
Proceeds from (repayment of) long-term debt	37,300	(59,000)
Share issuance	0	216
Dividends paid	(16,309)	(10,931)
Net cash generated from (used in) financing activities	19,924	(70,635)
Investing activities		
Acquisition of intangible assets	(5)	(42)
Proceeds from disposition of property, plant and equipment	24	358
Acquisition of property, plant and equipment	(11,865)	(6,345)
Net cash used in investing activities	(11,846)	(6,029)
Effect of foreign exchange rate on cash	279	(33)
Increase in cash	25,232	12,937
(Bank indebtedness) cash — beginning of period	(9,938)	13,047
Cash — end of period	$ 15,294	$ 25,984

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

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

1. CORPORATE INFORMATION

New Flyer Industries Inc. ("NFI" or the "Company") was incorporated on June 16, 2005 under the laws of the Province of Ontario. NFI is the 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 provides a comprehensive suite of mass transportation solutions under several brands: New Flyer® (heavy-duty transit buses), MCI® (motor coaches), ARBOC® (low-floor cutaway and medium-duty buses) and NFI Parts™ (bus and coach parts and support).

The Company's common shares (the "Shares") are listed on the Toronto Stock Exchange ("TSX") under the symbol "NFI".

These unaudited interim condensed consolidated financial statements (the "Statements") were approved by the Company's board of directors (the "Board") on May 9, 2018.

1.1 Acquisition of ARBOC Specialty Vehicles, LLC

On December 1, 2017 (the "Acquisition Date"), the Company acquired 100% of the voting equity interest in ARBOC Specialty Vehicles, LLC ("ARBOC"). ARBOC, established in 2008 and located in Middlebury, Indiana, is the North American pioneer and leader in low-floor body-on-chassis (or "cutaway") bus technology. 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 expects to finalize the purchase price allocation in Q2 2018 with the completion of the working capital adjustment.

Cash purchase price	$ 99,885
Less: cash acquired	(3,261)
Net cash used in acquisition	96,624
Net assets acquired	
Accounts receivable	601
Income tax receivable	1,351
Inventories	6,437
Prepaid expenses and deposits	473
Property, plant and equipment	3,408
Deferred tax assets	685
Accounts payable and accrued liabilities	(3,789)
Provision for warranties	(475)
Other long-term liabilities	(1,107)
Deferred tax liabilities	(25,502)
Net tangible assets acquired	(17,918)
Trade names	4,800
Patent and licenses	7,000
Customer relationships	50,500
Backlog of sales orders	3,200
Identifiable intangible assets acquired	65,500
Goodwill acquired	$ 49,042

The goodwill acquired is largely attributable to the synergies and economies of scale expected from the combined businesses of NFI and ARBOC. This goodwill is not expected to be deductible for tax purposes. Management continues to assess and value the purchase price allocation and as such, 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.

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 audited consolidated financial statements as at and for the 52-week period ended December 31, 2017 ("Fiscal 2017"). These Statements should be read in conjunction with the Company's audited consolidated financial statements for Fiscal 2017.

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 audited consolidated financial statements as at and for Fiscal 2017.

2.3 Principles of consolidation

The Statements include the accounts of all of the Company's subsidiaries. Inter-company transactions between subsidiaries are eliminated on consolidation.

2.4 New and amended standards adopted by the Company

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

The Company has adopted IFRS 9 Financial Instruments as of January 1, 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement.

The details and quantitative impact of the changes in accounting policies are disclosed below.

- IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income and fair value through profit or loss. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, financial asset derivatives are never bifurcated. Refer to the table below for a summary of the classification changes upon transition to IFRS 9.

- IFRS 9 sets out a new forward looking 'expected loss' impairment model which replaces the incurred loss model in IAS 39 and applies to financial assets measured at amortized cost, contract assets and debt investments at fair value through other comprehensive income. Under the IFRS 9 'expected loss' model, a credit event no longer has to occur before credit losses are recognized. An assessment was performed to determine the expected credit loss of financial assets and the Company determined the expected credit loss to be not material.

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and liabilities as at January 1, 2018.

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

	Original classification under IAS 39	New classification under IFRS 9
Cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Deposits	Loans and receivables	Amortized cost
Accounts payables and accrued liabilities	Loans and receivables	Amortized cost
Other long-term liabilities	Loans and receivables	Amortized cost
Long-term debt	Loans and receivables	Amortized cost
Derivative financial instruments	Fair value through profit or loss	Fair value through profit or loss

The implementation of IFRS 9 had no material impact on the Company's financial statements.

IFRS 15 Revenue from Contracts with Customers

The Company has adopted IFRS 15 Revenue from Contracts with Customers as of January 1, 2018. In accordance with the transition provisions in IFRS 15, the Company has elected to apply the new rules retrospectively whereby the transitional adjustment is recognized in retained earnings, if any, with adjustment of comparatives.

The Company's manufacturing operations recognizes revenue from the sale of its new transit buses, coaches or cutaway's when control passes to the customer. However, in some contracts, a portion of the selling price includes the revenue for contract spares and training in which the goods and services are delivered to the customer on a separate date. IFRS 15 requires that the Company assesses the goods or service promised in contract with a customer and identify as a performance obligation each promise to transfer to the customer a good or service that is distinct. As per the Company's assessment, the delivery of contract spares and training meets the criteria of goods or service being distinct as it is separately identifiable and the customer benefits from the good or service separate from the new transit buses, coaches or cutaway. Hence, with the adoption of IFRS 15, the revenue from contract spares and training is deferred and recognized to revenue when provided to the customer.

Prior to adoption of IFRS 15, accrual for the cost of the contract spares and training are recorded at that time of delivery of the new transit buses, coaches or cutaway's and depleted when provided to the customer. As there is no margin on contract spares and training, the accrual amount approximates the deferred revenue as the reversal of the accrual of cost of goods sold equals the reversal of revenue that need to be set up as deferred. Hence, there is no retained earnings impact in the transitional adjustment and only affects certain statements of financial position accounts as shown below:

	As reported December 31, 2017	Transition adjustments	As restated January 1, 2018
Accounts payable and accrued liabilities	$ 319,436	$ (6,876)	$ 312,560
Current portion of deferred revenue	27,255	6,876	34,131

2.5 Standards issued but not yet adopted

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.

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

2.6 Fiscal periods

The Company's 2018 fiscal period is divided in quarters as follows:

	Period from January 1, 2018 to December 30, 2018 ("Fiscal 2018")		Period from January 2, 2017 to December 31, 2017 ("Fiscal 2017")	
	Period End Date	# of Weeks	Period End Date	# of Weeks
Quarter 1	April 1, 2018	13	April 2, 2017	13
Quarter 2	July 1, 2018	13	July 2, 2017	13
Quarter 3	September 30, 2018	13	October 1, 2017	13
Quarter 4	December 30, 2018	13	December 31, 2017	13
Fiscal year	December 30, 2018	52	December 31, 2017	52

3. ACCOUNTS RECEIVABLE

	April 1, 2018	December 31, 2017
Trade, net of allowance for doubtful accounts	$ 361,508	$ 349,036
Other	24,006	37,431
	$ 385,514	$ 386,467

4. INVENTORIES

	April 1, 2018	December 31, 2017
Raw materials	$ 184,687	$ 182,240
Work in process	129,645	101,611
Finished goods	105,368	75,631
	$ 419,700	$ 359,482

	13-Weeks Ended April 1, 2018	13-Weeks Ended April 2, 2017
Cost of inventories recognized as expense and included in cost of sales	$ 459,213	$ 444,610
Write-down of inventory to net realizable value in cost of sales	1,950	1,281
Reversals of a previous write-down in inventory	1,654	—

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 1, 2018	December 31, 2017
As presented on statements of financial position:		
Deferred tax liabilities	$ (88,777)	$ (88,453)

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

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

	13-Weeks Ended April 1, 2018	13-Weeks Ended April 2, 2017
Beginning of period	$ (88,453)	$ (94,324)
Exchange differences	(39)	49
Tax recorded through net earnings	372	611
Tax recorded through other comprehensive loss	(709)	377
Benefit of loss carry forward and share issuance costs recognized against income taxes payable	(19)	(31)
Tax recorded through equity	71	289
End of period	$ (88,777)	$ (93,029)

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

Deferred tax liabilities	Unrealized Foreign Exchange	Property Plant and Equipment	Goodwill and Intangibles	Other	**Total**
December 31, 2017	$ (8,025)	$ (6,275)	$ (136,594)	$ (7,796)	$ (158,690)
Tax reversed through net earnings	3,306	644	2,527	694	7,171
April 1, 2018	$ (4,719)	$ (5,631)	$ (134,067)	$ (7,102)	$ (151,519)

Deferred tax assets	Reserves and accruals not currently deductible	Tax Credits	Provisions	Property Plant and Equipment	Pension	Deferred Financing Costs and Interest	Other	**Total**
December 31, 2017	$ 23,513	$ 1,153	$ 30,502	$ 1,648	$ 3,541	$ 2,395	$ 7,485	$ 70,237
Tax recovered (charged) through net earnings	(5,723)	(2)	(557)	(803)	76	(243)	453	(6,799)
Tax recorded through other comprehensive loss	—	—	—	—	(709)	—	—	(709)
Tax recorded through equity	—	—	—	—	—	—	71	71
Benefit of loss carry forward and share issuance costs recognized against income taxes payable	—	—	—	—	—	(19)	—	(19)
Exchange differences	(14)		(18)	(1)	(2)	(2)	(2)	(39)
April 1, 2018	$ 17,776	$ 1,151	$ 29,927	$ 844	$ 2,906	$ 2,131	$ 8,007	$ 62,742

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

	13-Weeks Ended April 1, 2018	**13-Weeks Ended April 2, 2017**
Earnings before income tax expense	44,896	$ 56,566
Tax calculated using a 21% (April 2, 2017: 35%) U.S. tax rate	9,428	19,798
Tax effect of:		
Withholding and other taxes	534	132
Non-taxable income	(27)	(3,518)
Foreign exchange impact	(843)	1,182
State taxes	2,989	1,689
U.S. tax reform impact on foreign tax credits	3,123	—
Rate differential on income taxed at other than U.S. statutory rate	(730)	(762)
Other	66	141
Income tax expense for the period	$ 14,540	$ 18,662

Income tax expense reported for the period is an estimate reflecting the Company's anticipated effective tax rate for Fiscal 2018.

6. LONG-TERM DEBT

	Face Value	Unamortized Transaction Costs	**Net Book Value April 1, 2018**	Net Book Value December 31, 2017
Term Credit Facility	$ 482,000	$ 2,842	$ 479,158	$ 478,763
Revolving Credit Facility (“Revolver”)	139,300	—	139,300	102,000
	$ 621,300	$ 2,842	$ 618,458	$ 580,763

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 $14.9 million of outstanding letters of credit were drawn at April 1, 2018. 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 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. SHARE CAPITAL

	April 1, 2018	December 31, 2017
Authorized - Unlimited		
Issued - 62,971,836 Common Shares (December 31, 2017: 62,951,444)	$ 665,796	$ 665,602

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 31, 2017	62,951	$ 665,602
Stock options exercised	17	35
Restricted share units exercised	4	159
Balance – April 1, 2018	62,972	$ 665,796

8. EARNINGS PER SHARE

	13-Weeks Ended April 1, 2018	**13-Weeks Ended April 2, 2017**
Net earnings attributable to equity holders	$ 30,356	$ 37,904
Weighted average number of Shares outstanding	62,953,316	61,840,328
Net incremental Shares from assumed conversion of stock options	634,222	774,403
Weighted average number of Shares for diluted earnings per Share	63,587,538	62,614,731
Net earnings per Share (basic)	$ 0.4822	$ 0.6129
Net earnings per Share (diluted)	$ 0.4774	$ 0.6054

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.

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

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 and the outstanding directors' restricted share units.

9. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	13-Weeks Ended April 1, 2018	13-Weeks Ended April 2, 2017
Accounts receivable	$ 953	$ 55,339
Income tax receivable	4,089	(6,439)
Inventories	(59,338)	(16,956)
Prepaid expenses and deposits	1,222	2,683
Accounts payable and accrued liabilities	39,699	19,132
Income taxes payable	(7,328)	10,444
Deferred revenue	7,237	(15,205)
Provisions	(2,344)	7,208
Other	(9,063)	(12,535)
	$ (24,873)	$ 43,671

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Financial Instruments

The Company has made the following classifications:

Cash	Amortized cost
Accounts receivable	Amortized cost
Deposits	Amortized cost
Accounts payables and accrued liabilities	Amortized cost
Other long-term liabilities	Amortized cost
Long-term debt	Amortized cost
Derivative financial instruments	Fair value through profit or loss

(b) Fair value measurement of financial instruments

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

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

Level 2 - fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable that are not prices (such as interest rates and credit risks) and inputs that are derived from or corroborated by observable market data.

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

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

The following table presents the carrying amounts and fair values of financial liabilities and financial assets, including their levels in the fair value hierarchy. 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 1, 2018		
	Fair value level	Carrying amount	Fair value
Financial assets recorded at fair value			
Total return swap contracts	Level 2	$ 8,245	$ 8,245
Interest rate swap	Level 2	9,413	9,413
Derivative financial instrument assets		$ 17,658	$ 17,658
Financial liabilities recorded at fair value			
Derivative financial instrument liabilities			
Foreign exchange forward contracts	Level 2	2,144	2,144

(c) Risk Management

The Company uses derivative financial instruments including interest rate swaps, total return swaps 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 “interest and finance costs” or “unrealized foreign exchange loss (gain) on non-current monetary items” in the unaudited 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 the $482,000 Term Credit Facility. The new interest rate swap fixes the interest rate at 1.154% plus the applicable interest margin until December 2019. The fair value of the interest rate swap asset at April 1, 2018 is $9,413 (December 31, 2017: $7,422) and the change in fair value has been recorded as finance costs for the reported period. The related asset has been recorded on the unaudited interim condensed consolidated statements of financial position as a derivative financial instruments asset.

The Company has 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, restricted share units and deferred share units. The total return swap has a re-investment feature which increases the number of Shares in the swap when dividends are paid by the Company. As at April 1, 2018, the Company held a position of 435,905 Shares at a weighted average price of C$34.36. The Company does not apply hedge accounting to these derivative instruments 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.

At April 1, 2018, the Company had $90 million of foreign exchange forward contracts to buy Canadian dollars with U.S. dollars at an average agreed exchange rate of $0.80. These foreign exchange contracts range in expiry dates from May 2018 to September 2018. The related liability of $2.1 million (2017: $0.1 million liability) is recorded on the unaudited interim consolidated statements of financial position as a current derivative financial instruments liability and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the unaudited interim consolidated statements of net earnings and total comprehensive income.

(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 1, 2018, the Company had a cash balance of $15,294 (December 31, 2017: $9,938 of bank indebtedness) and the $343,000 Revolver. As at April 1, 2018, there was $139,300 of direct borrowings (December 31, 2017: $102,000) and $14,906 of outstanding letters of credit (December 31, 2017: $8,817) under the Revolver.

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

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The Company's principal sources of funds are cash generated from its operating activities, share issuances and borrowing capacity remaining under the Credit Facility. Management believes that these 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 unaudited 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 unaudited 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 1, 2018		December 31, 2017
Current, including holdbacks	$	349,453	$	361,805
Past due amounts but not impaired				
1 – 60 days		31,730		22,306
Greater than 60 days		5,069		2,878
Less: Allowance for doubtful accounts		(738)		(522)
Total accounts receivables, net	$	385,514	$	386,467

As at April 1, 2018, 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 1, 2018, the Company was in compliance with the ratios. The results of the financial covenants tests as of such date are as follows:

	April 1, 2018	December 31, 2017
Total Leverage Ratio (must be less than 3.50)	1.90	1.84
Interest Coverage Ratio (must be greater than 3.00)	16.68	17.15

The total leverage ratio covenant was reduced by 0.25 to 3.50 beginning January 1, 2018.

Compliance with financial covenants is reported quarterly to the board of directors of the Company. 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.

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

11. SEGMENT INFORMATION

The Company has two reportable segments: Bus, Coach and Cutaway Manufacturing Operations ("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, service and support of new transit bus, coach and cutaway. Based on management's judgement and applying the aggregation criteria in IFRS 8.12, the Company's transit bus, motor coach and cutaway operations fall under a single reportable segment. Aggregation of these operating segments is based on the segments having similar economic characteristics with similar long-term average returns, products and services, production methods, distribution, geographic market and regulatory environment.

The Manufacturing Operations segment has recorded vendor rebates of $78 (2017 Q1: $1,723), which have been recognized into earnings during 2018 Q1, but for which the full requirements for entitlement to these rebates have not yet been met.

The Aftermarket Operations segment derives its revenue from the sale of aftermarket parts for transit buses and motor coaches.

Organizational changes to better align business functions within operating segments were made effective January 2, 2017. This organizational change was implemented in two phases. In 2017, over-the-counter parts sales were moved from the coach operations to aftermarket operations. In 2018 the service function, comprised of technical service management and customer training, which was previously managed by the aftermarket operations, of MCI only, was moved to the coach manufacturing operations. To improve the comparability between periods, the related prior year segment information has been restated to reflect these changes.

There is no inter-segment revenue. Unallocated items in the consolidated earnings before income taxes primarily include unrealized foreign exchange gains or losses, interest and finance costs and corporate overhead costs.

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:

	13-Weeks Ended April 1, 2018			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 478,579	$ 100,055	—	$ 578,634
Operating costs and expenses	437,037	81,925	14,776	533,738
Earnings (loss) before income tax expense	41,542	18,130	(14,776)	44,896
Total assets	1,367,950	401,831	275,471	2,045,252
Addition of capital expenditures	10,857	1,008	—	11,865
Addition of goodwill and intangibles assets	5	—	—	5
Goodwill	304,850	131,474	—	436,324

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

	13-Weeks Ended April 2, 2017 ("restated")			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 475,933	$ 96,214	—	572,147
Operating costs and expenses - originally reported	429,755	77,059	8,767	515,581
Adjustment	1,861	(1,861)	—	—
Operating costs and expenses - restated	431,616	75,198	8,767	515,581
Earnings (loss) before income tax expense - originally reported	46,178	19,155	(8,767)	56,566
Adjustment	(1,861)	1,861	—	—
Earnings (loss) before income tax expense - restated	44,317	21,016	(8,767)	56,566
Total assets	1,095,581	385,243	318,045	1,798,869
Addition of capital expenditures	6,133	212	—	6,345
Addition of goodwill and intangibles assets	42	—	—	42
Goodwill	251,594	131,474	—	383,068

12. 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 1, 2018 range from April 2018 to March 2020.

At April 1, 2018, outstanding surety bonds guaranteed by the Company totaled $352,648 (December 31, 2017: $327,290). 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 1, 2018, letters of credit totaling $14,906 (December 31, 2017: $8,817) remain outstanding under the letter of credit facility.

As at April 1, 2018, 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.

13. PROVISIONS

	Insurance Risk Retention	Warranty	Total
December 31, 2017	$ 22,746	$ 80,358	$ 103,104
Additions	1,759	8,473	10,232
Paid claims	(2,197)	(10,603)	(12,800)
Unwinding of discount and effect of changes in the discount rate	—	(2)	(2)
Exchange differences	—	212	212
	22,308	78,438	100,746
Less current portion	(3,000)	(35,205)	(38,205)
April 1, 2018	$ 19,308	$ 43,233	$ 62,541

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

14. CURRENT PORTION OF LONG TERM LIABILITIES

	April 1, 2018	December 31, 2017 (restated note 2.4)
Deferred revenue	$ 40,595	$ 34,131
Provisions	38,205	37,838
Other long-term liabilities	990	981
Deferred compensation obligation	6,023	15,724
Obligations under finance leases	5,692	4,685
	$ 91,505	$ 93,359