Interim Condensed Consolidated Financial Statements of

NEW FLYER INDUSTRIES INC.

April 3, 2016

(Unaudited)

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

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

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

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

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

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

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

NEW FLYER INDUSTRIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the period ended April 3, 2016
(unaudited, in thousands of U.S. dollars)

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

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

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

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

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

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

These financial statements (the "Statements") were approved by the Company's board of directors (the "Board") on May 12, 2016.

1.1 Acquisition of Motor Coach Industries

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Statement of Compliance

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

2.2 Basis of preparation

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

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

2.3 Principles of consolidation

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

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

2.4 Standards issued but not yet adopted

IFRS 9 - Financial Instruments:

The International Accounting Standards Board ("IASB") issued IFRS 9 to replace IAS 39, which will become effective January 1, 2018 and early adoption is permitted. IFRS 9 - Financial Instruments introduces new requirements for the classification and measurement of financial instruments. Management is in the process of reviewing the standard to determine the impact on the Company's financial statements.

IFRS 15 – Revenue from Contracts with Customers:

The IASB issued IFRS 15 – Revenue from Contracts with Customers, which will become effective January 1, 2018 and early adoption is permitted. Under this standard, revenue will be recognized over time in a manner that best reflects the Company's performance, or at a point in time, when control of the good or service is transferred to customers. Management is in the process of reviewing the standard to determine the impact on the Company's financial statements.

IFRS 16 – Leases:

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

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

2.5 Fiscal periods

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

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

3. ACCOUNTS RECEIVABLE

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

4. INVENTORIES

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

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

5. DEFERRED TAXES AND INCOME TAX EXPENSE

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

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

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

5. DEFERRED TAXES AND INCOME TAX EXPENSE

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

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

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

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

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

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

5. DEFERRED TAXES AND INCOME TAX EXPENSE

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

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

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

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

6. LONG-TERM DEBT

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

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

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

7. CONVERTIBLE DEBENTURES

On June 5, 2012, the Company completed a public offering of $65,000 aggregate principal amount of Debentures, bearing interest at a rate of 6.25% per annum, payable semi-annually on the last day of June and December commencing on December 31, 2012. The Debentures will mature on June 30, 2017 (the "Maturity Date"). The Debentures are convertible at the holder's option into Shares at a conversion price of $10.00 per Share (the "Conversion Option").

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

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

On the date of issuance, the gross proceeds in the amount of $65,000 were allocated firstly to the liability component of the Debentures based on the fair value of a similar instrument without a conversion option and the residual value being allocated to the Conversion Option. The fair value of the Debentures was estimated by calculating the discounted cash flows of the Debentures using prevailing market rates for similar non-convertible debt instruments. The fair value of the Debentures is classified as a liability, while the residual value of the Debentures, net of taxes, is classified as a separate component of shareholders' equity. The liability component will accrete to its final redemption amount of $65,000 less all conversions, at Maturity Date at an effective interest rate over the five–year term of the Debentures.

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

	Liability component of Debenture	Equity component of Debenture	**Net Book Value April 3, 2016**	Net Book Value December 27, 2015
Proceeds from issue of Debentures	$ 59,412	$ 5,588	$ 65,000	$ 65,000
Debenture issuance costs	(3,463)	(326)	(3,789)	(3,789)
Net proceeds	55,949	5,262	61,211	61,211
Deferred taxes	—	(574)	(574)	(1,421)
Accretion in carrying value of debenture liability	6,473	—	6,473	5,986
Conversion of Debentures to Shares	(37,205)	(3,136)	(40,341)	(850)
Net book value	$ 25,217	$ 1,552	$ 26,769	$ 64,926

8. SHARE CAPITAL

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

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

Shares	Number (000s)	Net Book Value
Balance – December 27, 2015	55,739	$ 591,758
Stock options exercised	162	1,512
Restricted Share Units exercised	2	47
Conversion of Debentures to Shares	3,790	38,644
Deferred tax assets recognized as a result of historical share redemptions	—	301
Balance – April 3, 2016	59,693	$ 632,262

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

9. EARNINGS PER SHARE

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

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

Diluted earnings per Share is calculated using the same method as basic earnings per Share except that the average number of Shares outstanding includes the potential dilutive effect of outstanding stock options granted by the Company as determined by the treasury stock method. Dilution could occur through the exercise of stock options, the exercise of the Conversion Option or the Debentures being repaid with Shares at Maturity Date at 95% of market price. Currently, the 2,624,900 Shares issuable pursuant to the conversion of the Debentures are considered anti-dilutive, therefore both the convertible debenture Shares and the related interest are disregarded in calculating diluted earnings per Share.

10. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

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

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Financial Instruments

The Company has made the following classifications:

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

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

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(b) Fair value measurement of financial instruments

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

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

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

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

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

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

(c) Risk Management

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

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

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

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

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

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

(d) Liquidity Management

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

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

(e) Credit risk

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

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

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

As at April 3, 2016, there was no amount that would otherwise be past due or impaired whose terms have been renegotiated.

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

There are certain financial covenants under the Credit Facility that must be maintained. These financial covenants include an interest coverage ratio and total leverage ratio. In accordance with terms of the Credit Facility, the Debentures are treated as equity for purposes of calculating the total leverage ratio. At April 3, 2016, the Company was in compliance with the ratios. The results of the financial covenants tests as of such date are as follows:

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

Compliance with financial covenants is reported quarterly to the Board. Other than the requirements imposed by borrowing agreements, the Company is not subject to any externally imposed capital requirements. Capital management objectives are reviewed on an annual basis or when strategic capital transactions arise.

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

12. SEGMENT INFORMATION

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

The Manufacturing Operations segment derives its revenue from the manufacture of transit buses for public transportation and motor coaches. The Aftermarket Operations segment derives its revenue from the provision of service parts and support related to transit buses and motor coaches. These operating segments are consistent with the management of the business, which is based on the products and services offered.

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

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

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

Segment information about profits and assets is as follows:

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

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

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

13. COMMITMENTS AND CONTINGENCIES

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

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

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

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

As at April 3, 2016, management believes that the Company was in compliance in all material respects with all applicable contractual obligations and the Company has not provided for any costs associated with these letters of credit.

14. PROVISIONS FOR WARRANTY COSTS

The Company generally provides its customers with a base warranty on the entire bus or motor coach and a corrosion warranty on the related structure. The Company also provides certain extended warranties, including those covering brake systems, lower level components, fleet defect provisions and engine-related components, covering a warranty period of approximately one to five years, depending on the contract. The movements in the provision for the base warranty costs during the period are as follows:

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