

August 7, 2018

NOTICE TO READER

Re: NFI Group Inc.

To whom it may concern,

This document corrects and replaces the Management Discussion & Analysis that was inadvertently filed on SEDAR on August 7, 2018 at 5:40 pm EST.

The Management Discussion & Analysis is being refiled to correct the table outlining the Adjusted Net Earnings and Adjusted Earnings per Share on Page 16.

No other content has changed.

August 7, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS AND 26-WEEKS ENDED JULY 1, 2018

Information in this Management's Discussion and Analysis ("MD&A") relating to the financial condition and results of operations of NFI Group Inc., formerly "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 ("2018 Q2") and the 26-week period ("2018 YTD") ended July 1, 2018. 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", "Carfair"), 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 senior 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 July 1, 2018, 62,914,546 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 the Company's future growth, results of operations, performance and business prospects and opportunities. The words "believes", "anticipates", "plans", "expects", "intends", "projects", "forecasts", "estimates" and similar expressions are intended to identify forward-looking statements. These forward-looking statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this MD&A. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not or the times at or by which such performance or results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements. Such differences may be caused by factors which include, but are not limited to, availability of funding to the Company's customers to purchase 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, tariffs, duties, surtaxes and the Canadian federal Duties Relief Program) 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 labor 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, 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 who 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, FREE CASH FLOW, ADJUSTED NET EARNINGS AND ADJUSTED EARNINGS PER SHARE

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 or recoveries 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, past service costs, 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, past service costs, 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 as 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). References to "Adjusted Net Earnings" are to net earnings after adjusting for the after tax effects of certain non-recurring and/or non-operational 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 or recoveries 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, past service costs, costs associated with assessing strategic and corporate initiatives and proportion of the total return swap realized. References to "Adjusted Earnings per Share" are to Adjusted Net Earnings divided by the average number of Shares outstanding.

Management believes Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Earnings per Share are useful measures in evaluating the performance of the Company. However, Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Earnings per Share 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, Adjusted Net Earnings 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”. A reconciliation of net earnings to Adjusted Net Earnings is provided under the heading “Reconciliation of Net Earnings to Adjusted Net Earnings”.

NFI's method of calculating Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Earnings per Share 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 31 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.

On May 14, 2018, the articles of incorporation of New Flyer Industries Inc. were amended to change the name of the Company to “NFI Group Inc.”. The Company believes the new name better reflects the multi-platform nature of its business.

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. Zero-emission buses (ZEB) includes trolley-electric, battery-electric and fuel cell electric buses.

- 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.
- Motor Coach Industries is North America's motor coach leader offering the J-Series, the industry's best-selling intercity coach for 13 consecutive years, and the D-Series, the industry's best-selling motor coach line in North American history. MCI actively supports nearly 30,000 coaches currently in service.
- ARBOC is North America's low-floor cutaway bus leader serving transit, paratransit, and shuttle applications. With more than 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.
- NFI Parts is North America's most comprehensive parts organization, providing replacement parts, technical publications, training and support for NFI Group's bus and motor coach product lines.

2018 Second 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 received by the Company and in process of review plus bids submitted by the Company and awaiting customer action, and (ii) management's forecast, based on data provided by operators, 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 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
2018 Q2	1,319	2,391	3,710	18,440	22,150

- (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 non-exclusive 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 Q2

New orders (firm and options) during 2018 Q2 totaled 1,413 EUs. The new firm and option orders awarded to the Company for 2018 Q2 LTM ("LTM" means "last twelve months" ended on the referenced date) were 6,303 EUs. The Company was also successful at converting 505 EUs of options during 2018 Q2 to firm orders, which contributed to the 1,743 EUs of options converted to firm orders in 2018 Q2 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 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
2018 Q2	1,413	6,303	505	1,743

In 2018 Q2, 97 option EUs expired, compared to 350 option EUs that expired during the 13-week period ended April 1, 2018 ("2018 Q1").

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	447						2,797
B) Options Exercised (EUs)	1,149	1,339	2,064	1,404	946						6,902
C) Current Options by year of expiry (EUs)					424	945	1,339	1,827	2,400	971	7,906
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. NFI 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 Q2, the Company's total backlog (firm and options) of 11,685 EUs (valued at \$5.80 billion) increased 1.2% compared to 11,548 EUs (valued at \$5.75 billion) at the end of 2018 Q1.

The Company's 2018 Q2 LTM Book-to-Bill ratio (defined as new firm and option orders divided by new transit bus, medium-duty, cutaways and coach deliveries) was 154%. The Company's LTM Book-to-Bill ratio has exceeded 100% for the last sixteen 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, 130 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 Q2

Gross orders received by the Company's aftermarket business increased by 4.3% in 2018 Q2 compared to 2018 Q1, while increasing by 5.7% over orders for the 13-week period ended July 2, 2017 ("2017 Q2"). For 2018 Q2, ARBOC aftermarket parts orders were not material and have not been included in these figures.

2018 Second Quarter Financial Results

Year-over-year comparisons reported in this MD&A compare 2018 YTD to the 26-week period ended July 2, 2017 ("2017 YTD"). 2018 Q2 is the second 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 manufacturing operations to aftermarket operations. In 2018 the MCI service function, comprised of technical service management and customer training, which was previously managed by the MCI aftermarket operations, 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.

	2018 Q2	2017 Q2	% change	2018 YTD	2017 YTD	% change
Deliveries (EUs)						
New transit bus, coach and cutaway	1,159	991	17.0 %	2,152	1,883	14.3 %
Pre-owned coach	102	110	(7.3)%	166	175	(5.1)%
Average EU selling price (U.S. dollars in thousands)						
New transit bus, coach and cutaway	\$ 481.4	\$ 510.7	(5.7)%	\$ 476.1	\$ 517.7	(8.0)%
Pre-owned coaches	\$ 114.7	\$ 121.6	(5.7)%	\$ 119.3	\$ 117.1	1.9 %

	2018 Q2	2017 Q2	% change	2018 YTD	2017 YTD	% change
Consolidated Revenue (U.S. dollars in millions)						
New transit bus, coach and cutaway	\$ 558.0	\$ 506.1	10.3 %	\$ 1,024.6	\$ 974.9	5.1 %
Pre-owned coach	11.7	13.4	(12.7)%	19.8	20.5	(3.4)%
Fiberglass reinforced polymer components	4.9	—	100.0 %	8.8	—	100.0 %
Manufacturing	574.6	519.5	10.6 %	1,053.2	995.4	5.8 %
Aftermarket	98.4	93.9	4.8 %	198.5	190.2	4.4 %
Total Revenue	\$ 673.0	\$ 613.4	9.7 %	\$ 1,251.7	\$ 1,185.6	5.6 %

Revenue from manufacturing operations for 2018 Q2 increased by 10.6% compared to 2017 Q2. The increase in 2018 Q2 revenue primarily resulted from a 17.0% increase in new transit bus, coach and cutaway deliveries compared to 2017 Q2, as well as the inclusion of the revenue generated from third parties by the fiberglass reinforced polymer component operations. This increase was offset by a 5.7% decrease in new transit bus, coach and cutaway average selling price per EU in 2018 Q2 compared to 2017 Q2. Volume increased as a result of higher transit bus and motor coach deliveries and the inclusion of ARBOC cutaway deliveries. 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 that have a substantially lower selling price than the average heavy-duty transit bus or motor coach). Manufacturing operations revenue for 2018 Q2 of \$574.6 million is \$45.6 million higher when compared to pro forma manufacturing business revenue for 2017 Q2. Similarly, revenue from manufacturing operations for 2018 YTD increased 5.8% compared to 2017 YTD. The increase in 2018 YTD revenue primarily relates to increased deliveries of 14.3% when compared to 2017 YTD offset by a decrease in new transit bus, coach and cutaway average selling price per EU in 2018 YTD of 8.0% when compared to 2017 YTD. Manufacturing business revenue for 2018 YTD of \$1,053.2 million is \$39.3 million higher when compared to pro forma manufacturing business revenue for 2017 YTD.

Revenue from aftermarket operations in 2018 Q2 increased by 4.8% compared to 2017 Q2. Revenue from aftermarket operations in 2018 YTD increased by 4.4% compared to 2017 YTD.

Net earnings during 2018 Q2 increased by \$6.9 million compared to 2017 Q2, primarily as a result of increased earnings from operations and a decrease in income tax expense as a result of U.S. tax reform. Net earnings 2018 YTD decreased when compared to 2017 YTD by \$0.6 million primarily as a result of changes in non-recurring and/or non-operational transactions.

The Company's net earnings per Share in 2018 Q2 of \$0.81 increased 17.4% from net earnings per Share of \$0.69 generated in 2017 Q2. The Company's net earnings per Share in 2018 YTD of \$1.29 is substantially unchanged from net earnings per Share of \$1.30 generated in 2017 YTD.

Adjusted Net Earnings during 2018 Q2 increased by \$8.8 million compared to 2017 Q2 resulting in an increase in Adjusted Earnings per Share in 2018 Q2 of \$0.15 (22.1% increase), primarily as a result of increased earnings from operations and a decrease in income tax expense as a result of U.S. tax reform. Similarly Adjusted Net Earnings for 2018 YTD increased by \$9.0 million when compared to 2017 YTD.

Net earnings per Share has been impacted by a number of non-recurring and/or non-operational transactions. Excluding these items, 2018 Q2 Adjusted Earnings per Share of \$0.83 represents an increase of 17.4% compared to \$0.68 in 2017 Q2. Similarly 2018 YTD Adjusted Earnings per Share of \$1.41 has increased 11.0% compared to \$1.27 for 2017 YTD.

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 July 1, 2018 was 15.5% as compared to 14.9% during the last twelve months ended July 2, 2017 ("2017 Q2 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 Q2	2017 Q2 (restated)	% change	2018 YTD	2017 YTD (restated)	\$ change
Manufacturing	\$ 72.2	\$ 64.5	11.9 %	\$ 126.2	\$ 113.0	11.7 %
Aftermarket	19.2	20.6	(6.8)%	39.1	43.5	(10.1)%
Total Adjusted EBITDA	\$ 91.4	\$ 85.1	7.4 %	\$ 165.2	\$ 156.5	5.6 %
Adjusted EBITDA % of revenue						
Manufacturing	12.6%	12.4%	0.2 %	12.0%	11.4%	0.6 %
Aftermarket	19.5%	21.9%	-2.4 %	19.7%	22.9%	-3.2 %
Total	13.6%	13.9%	-0.3 %	13.2%	13.2%	0.0 %

Manufacturing Adjusted EBITDA per new EU delivered (U.S. dollars)	2018 Q2	2017 Q2 (restated)	\$ change	2018 YTD	2017 YTD (restated)	\$ change
Manufacturing Adjusted EBITDA (in millions)	\$ 72.2	\$ 64.5	\$ 7.7	\$ 126.2	\$ 113.0	\$ 13.2
New transit bus, coach and cutaway deliveries (EUs)	1,159	991	168	2,151	1,883	268
Manufacturing Adjusted EBITDA per new EU delivered (in thousands)	\$ 62.3	\$ 65.1	\$ (2.8)	\$ 58.7	\$ 60.0	\$ (1.3)

Consolidated Adjusted EBITDA for 2018 Q2 increased by 7.4% compared to 2017 Q2. Consolidated Adjusted EBITDA for 2018 YTD increased by 5.6% compared to 2017 YTD.

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, Adjusted EBITDA and deliveries for 2017 Q2 and 2017 YTD would have been as follows:

Revenue - Manufacturing Segment Only (Unaudited, U.S. dollars in millions)	2017 Q2	2017 YTD
ARBOC Cutaway buses revenue	\$ 9.5	\$ 18.5
NFI's manufacturing revenue	519.5	995.4
NFI's pro forma revenue	\$ 529.0	\$ 1,013.9

Adjusted EBITDA - Manufacturing Segment Only (Unaudited, U.S. dollars in thousands)	2017 Q2 (restated)	2017 YTD (restated)
ARBOC's manufacturing Adjusted EBITDA ⁽¹⁾	\$ 2,769	\$ 4,960
Post acquisition manufacturing Adjusted EBITDA	—	—
ARBOC's pro forma manufacturing Adjusted EBITDA	2,769	4,960
NFI's manufacturing Adjusted EBITDA	64,450	113,000
NFI pro forma manufacturing Adjusted EBITDA	\$ 67,219	\$ 117,960
NFI pro forma Adjusted EBITDA per EU	\$ 61.7	\$ 57.0

Deliveries	2017 Q2	2017 YTD
ARBOC Cutaway sales (EUs)	99	186
NFI New transit bus and coach	991	1,883
Total pro forma deliveries	1,090	2,069

⁽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 development costs in accordance with NFI's definition of Adjusted EBITDA.

The 2018 Q2 and 2018 YTD manufacturing Adjusted EBITDA increased 11.9% and 11.7% compared to 2017 corresponding periods, primarily as a result of increased deliveries, improved margins and the inclusion of ARBOC's operations. Contributors to the increase in margin included a favorable sales mix and continued cost reductions achieved through the Company's operational excellence ("OpEx") initiatives. The manufacturing business Adjusted EBITDA per EU for 2018 Q2 was \$62.3 thousand which is \$2,800 lower per EU compared to 2017 Q2, but is \$600 higher per EU when compared to pro forma 2017 Q2 (which includes ARBOC). The manufacturing business Adjusted EBITDA per EU for 2018 YTD was \$58.7 thousand which is \$1,300 lower per EU compared to 2017 YTD but is \$1,700 higher per EU compared to pro forma 2017 YTD (which includes ARBOC).

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.

The 2018 Q2 and 2018 YTD aftermarket operations Adjusted EBITDA decreased by 6.8% and 10.1%, respectively, compared to 2017 corresponding periods primarily due to sales mix and costs involved in integrating 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.

Free Cash Flow (dollars in millions)	2018 Q2	2017 Q2	% change	2018 YTD	2017 YTD	% change
Free Cash Flow (U.S. dollars)	\$ 47.8	\$ 40.8	17.2 %	\$ 88.5	\$ 81.2	9.0%
Free Cash Flow (CAD dollars)	\$ 63.0	\$ 52.9	19.1 %	\$ 116.5	\$ 106.6	9.3%
Declared dividends (CAD dollars)	\$ 23.6	\$ 20.4	15.7 %	\$ 44.1	\$ 35.1	25.6%
Payout Ratio (Declared dividends divided by Free Cash Flow)	37.5%	38.6%	(2.8)%	37.9%	32.9%	15.2%

Free cash flow in 2018 Q2 increased 17.2% when compared to 2017 Q2 primarily due to increased Adjusted EBITDA. The amount of dividends declared increased by 15.7% in 2018 Q2 as a result of the increase in the annual dividend rate from C\$1.30 to C\$1.50 per

Share effective for dividends declared after May 9, 2018 and additional Shares issued as a result of conversion of NFI's previously outstanding convertible debentures.

Free cash flow in 2018 YTD increased 9.0% when compared to 2017 YTD primarily due to increased Adjusted EBITDA. The amount of dividends declared increased by 25.6% in 2018 YTD as a result of the increases in the annual dividend rates and additional Shares issued as a result of conversion of NFI's previously outstanding convertible debentures.

The Company returned \$24.1 million back to shareholders in 2018 Q2 as a result of Share repurchases under the Company's normal course issuers bid ("NCIB") and dividends which represents an increase of 117.1% when compared to \$11.1 million in 2018 Q1. Similarly the Company returned \$40.4 million in 2018 YTD which represents an increase of 83.6% when compared to \$22.0 million in 2017 YTD.

The liquidity position of \$210.6 million as at July 1, 2018 is comprised of available cash of \$15.6 million and \$195.0 million available under the revolving portion of the Company's credit facility ("Revolver") as compared to a liquidity position of \$204.1 million at April 1, 2018. The increase in liquidity primarily relates to improved cash flows from operations offset by cash used to acquire property, plant and equipment ("PPE") and capital returned to shareholders through dividends and the repurchase of Shares under the Company's NCIB. Changes in non-cash working capital are primarily a result of seasonality and are expected to be temporary in nature. Management believes 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 expenditures (U.S. dollars in millions)	2018 Q2	2017 Q2	% change	2018 YTD	2017 YTD	% change
PPE expenditures	\$ 25.1	\$ 9.2	172.8%	\$ 42.0	\$ 15.9	164.2%
Less PPE expenditures funded by capital leases	(6.3)	(0.1)	6,200.0%	(11.4)	(0.4)	2,750.0%
Cash acquisition of PPE reported on statement of cash flows	\$ 18.8	\$ 9.1	106.6%	\$ 30.6	\$ 15.5	97.4%

PPE cash expenditures in 2018 Q2 and 2018 YTD have increased by 106.6% and 97.4% compared to the 2017 corresponding periods as a result of investments in facilities, increased part fabrication capacity from the Company's new Shepherdsville, KY facility and as a result of insourcing and continuous improvement programs.

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 low-floor 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 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, of more than \$1 billion over last year.

Management continues to expect bus procurement activity by public transit agencies throughout the U.S. and Canada to remain robust based on an aging fleet, availability of funding provided through the multi-year U.S. federal funding program "Fast Act", healthy overall economic conditions, expected customer fleet replacement plans and active or anticipated procurements and continues to anticipate stable private sector demand for motor coaches through 2018. While some traditional fixed route and line haul operators have seen increased competitive headwinds from reduced demand and increased competition, including new e-commerce entrants, management believes MCI remains well positioned to deliver coaches in this segment. MCI is also focused on opportunities for motor coach sales in public transit, employee shuttle and tour and charter segments.

MCI continues to develop and expand its product portfolio. The new D45 CRT LE motor coach, with its revolutionary improvements to support people with physical 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 U.S. Federal Transit Administration ("FTA") funding. The new MCI 35' motor coach, the J3500, is undergoing electronic stability control calibration and certification. Production capability to support the manufacture of these vehicles is expected to 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 the U.S. and Canada in 2017. ARBOC is currently testing its medium-duty product (Spirit of Equest) at the Altoona bus testing facility. Management is pleased with customer reactions to the new product and anticipates deliveries starting in the fourth quarter of 2018.

New Flyer's award-winning, heavy-duty transit bus platform, Xcelsior®, which offers the largest variety of propulsion systems in the market, continues to be procured by transit authorities across North America. One area of growing focus is ZEBs. While the current North American installed fleet includes just over 1% ZEBs, the demand for ZEBs is expected to grow over time. New Flyer's Xcelsior Charge™ and other New Flyer ZEB propulsion platforms are expected to benefit from this increased demand.” .

The Company has successfully complied with Buy America conditions of U.S. public customers who require 65% U.S. material content in 2018 and has plans in place to achieve the 70% target by October 2019.

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. The Company's deliveries are expected to be comprised of the following vehicle types:

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 million to \$73 million. This estimate is approximately \$8 million higher than 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 further sales of new Setra motor coaches planned after 2018 Q2. The DRA was established in 2012, and since then, MCI has only sold a total of 287 new Setra coaches, of which 21 were sold in 2017 and 6 in 2018. In accordance with the DRA, MCI has returned new unsold coaches to Daimler, but will continue to sell pre-owned Setra coaches.

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 the Company (New Flyer and MCI), while targeting new market opportunities.

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

Ongoing surveys and discussions with large parts customers continue to indicate a number of market effects including: customers' inventory reduction strategies, budget constraints, a decline in the installed base of certain acquired brands no longer in production (such as Orion and NABI), increased competition from truck dealers and distributors and improved quality of the Xcelsior® and MCI buses compared to prior models and fleet modernization efforts. Although part sales remain difficult to forecast, management expects the parts market to remain relatively stable in Fiscal 2018, with quarter-to-quarter volatility 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 FTA 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. All ARBOC low-floor cutaway and medium-duty transit buses, used by both public and private customers, are manufactured in the U.S. 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 within 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 significant 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 the impact on the Company should changes occur to the current agreement.

Commodity Price Increases, Tariffs and Surtaxes

There has been considerable interest on the impact to the Company from rising commodity prices as well as tariffs and surtaxes on U.S. and Canadian steel imports.

The Company uses aluminum, carbon steel and stainless steel in the manufacture of bus and coach frames. However, these raw materials, before processing, comprise less than 3% of total material costs. Management currently anticipates an immaterial impact for the remainder of 2018 from current market increases in aluminum and steel pricing as major components, which include aluminum and steel, are purchased under fixed price or contract specific quotations. Management expects that any future component cost increases should be substantially recoverable through new contract pricing or through the producer price index (PPI) mechanisms in multiyear contracts.

On June 1, 2018 the U.S. federal government imposed tariffs on Canadian steel and aluminum imported into the U.S. In response the Government of Canada imposed certain surtaxes on U.S. steel and aluminum imported into Canada after July 1, 2018. The majority of the aluminum and steel used at the Company's manufacturing facilities is from U.S. sources, largely in support of the Buy America requirements of U.S. public customers. Canadian surtaxes paid on the importation of U.S. aluminum and steel used in manufacturing products at the Company's Canadian plants that are then re-exported to the U.S. are eligible for full recovery under the current Canadian federal Duty Relief and Duty Drawback Programs.

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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	Q2	673,025	91,400	72,063	49,740	0.81
	Q1	578,634	73,841	51,753	30,356	0.48
	Total	\$ 1,251,659	\$ 165,241	\$ 123,816	\$ 80,096	\$ 1.29
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

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)	Ending inventory comprised of:	
								Work in process (EUs)	Finished goods (EUs) ⁽²⁾
2018	Q2	633	(6)	—	1,122	1,159	590	496	94
	Q1	489	(3)	—	1,140	993	633	456	177
	Total	489	(9)	—	2,262	2,152	590	496	94
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	Q2	379	(26)	104	102	355
	Q1	343	21	161	146	379
	Total	343	(5)	265	248	355
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 Q2 and 2018 YTD, pre-owned coach revenue was \$11.7 million and \$19.8 million, respectively.

COMPARISON OF FIRST QUARTER AND TRAILING TWELVE MONTHS RESULTS

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

	13-Weeks Ended July 1, 2018	13-Weeks Ended July 2, 2017	26 Weeks Ended July 1, 2018	26-Weeks Ended July 2, 2017	52-Weeks Ended July 1, 2018	52-Weeks Ended July 2, 2017
Statement of Earnings Data	(restated*)		(restated*)		(restated*)	(restated*)
Revenue						
Canada	\$ 66,185	\$ 48,275	\$ 98,164	\$ 96,464	\$ 156,304	\$ 162,987
U.S.	508,405	471,214	955,005	898,958	1,914,070	1,788,496
Manufacturing operations	574,590	519,489	1,053,169	995,422	2,070,374	1,951,483
Canada	19,731	19,143	39,213	39,046	75,698	77,357
U.S.	78,704	74,798	159,277	151,109	301,868	290,750
Aftermarket operations	98,435	93,941	198,490	190,155	377,566	368,107
Total revenue	\$ 673,025	\$ 613,430	\$1,251,659	\$1,185,577	\$2,447,940	\$2,319,590
Earnings from operations	\$ 72,063	\$ 70,363	\$ 123,816	\$ 129,566	\$ 250,452	\$ 237,369
Earnings before interest and income taxes	72,420	71,701	121,066	132,231	248,423	148,233
Net earnings	49,740	42,769	80,096	80,673	190,791	290,525
Adjusted EBITDA ⁽¹⁾						
Transit bus and coach manufacturing operations including realized foreign exchange losses/gains	72,233	64,450	126,164	113,022	255,078	213,583
Aftermarket operations	19,167	20,640	39,077	43,518	71,649	83,569
Total Adjusted EBITDA ⁽¹⁾	\$ 91,400	\$ 85,090	\$ 165,241	\$ 156,540	\$ 326,727	\$ 297,152
Other Data (unaudited)						
Total Deliveries (New and Pre-owned Coaches)						
Canada	140	107	302	214	422	368
U.S.	1,019	884	1,850	1,669	3,675	3,285
New deliveries	1,159	991	2,152	1,883	4,097	3,653
Pre-owned deliveries	102	110	166	175	401	346
Total deliveries (EUs)	1,261	1,101	2,318	2,058	4,498	3,999
Capital expenditures	\$ 25,100	\$ 9,197	\$ 42,045	\$ 15,888	\$ 83,577	\$ 35,607
New options awarded	\$ 177,249	\$ 31,403	\$ 354,784	\$ 100,074	\$1,621,202	\$ 462,804
New firm orders awarded	\$ 471,905	\$ 448,674	\$ 632,052	\$ 715,844	\$1,342,230	\$1,306,798
Exercised options	253,984	189,133	494,682	288,978	1,018,579	786,428
Total firm orders	\$ 725,889	\$ 637,807	\$1,126,734	\$1,004,822	\$2,360,809	\$2,093,226

(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 manufacturing operations to aftermarket operations. In 2018 the MCI service function, comprised of technical service management and customer training, which was previously managed by the MCI aftermarket operations 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)		July 1, 2018		December 31, 2017		January 1, 2017			
Total assets	\$	2,037,729		\$	1,974,587	\$	1,822,403		
Long-term financial liabilities		805,060			783,573		772,623		
ROIC for LTM ^(1, 5)		15.5%			15.8%		14.3%		
Other Data			Equivalent Units		Equivalent Units		Equivalent Units		
Firm orders - USA	\$	1,679,647	3,224	\$	1,886,958	3,713	\$	1,658,882	3,182
Firm orders - Canada		246,429	555		212,276	473		109,129	260
Total firm orders	\$	1,926,076	3,779	\$	2,099,234	4,186	\$	1,768,011	3,442
Options - USA		3,759,793	7,652		3,772,651	7,637		3,422,538	6,630
Options - Canada		110,762	254		147,584	334		39,487	115
Total options		3,870,555	7,906		3,920,235	7,971		3,462,025	6,745
Total backlog	\$	5,796,631	11,685	\$	6,019,469	12,157	\$	5,230,036	10,187
Consisting of:									
Heavy-duty transit buses	\$	4,988,962	9,952	\$	5,131,323	10,164	\$	4,112,765	8,027
Motor coaches		788,602	1,530		860,296	1,671		1,117,271	2,160
Cutaway and medium-duty buses		19,067	203		27,850	322		—	—
Total Backlog	\$	5,796,631	11,685	\$	6,019,469	12,157	\$	5,230,036	10,187

Equivalent Units in Backlog	13-Weeks Ended July 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	3,997	7,551	3,442	6,745	2,462	7,202
New orders	456	957	2,859	2,961	2,437	2,157
Acquired backlog ⁽³⁾	—	—	315	—	—	—
Options exercised	505	(505)	1,404	(1,404)	2,064	(2,064)
Shipments ⁽⁴⁾	(1,159)	—	(3,828)	—	(3,511)	—
Cancelled/expired	(20)	(97)	(6)	(331)	(10)	(550)
End of period	3,779	7,906	4,186	7,971	3,442	6,745
Consisting of:						
Heavy-duty transit buses	3,092	6,860	3,542	6,622	2,994	5,033
Motor coaches	484	1,046	322	1,349	448	1,712
Cutaway and medium-duty buses	203	—	322	—	—	—
Total Backlog	3,779	7,906	4,186	7,971	3,442	6,745

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

2018	424
2019	945
2020	1,339
2021	1,827
2022	2,400
2023	971
Total options	7,906

(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, Free Cash, Adjusted Net Earnings and Adjusted Net Earnings ” above. Management believes that Adjusted EBITDA and ROIC are useful supplemental measures in evaluating performance of NFI.

(2) Finished goods are comprised of completed buses 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) Due to U.S. tax reform, the ETR used in the ROIC calculation for the LTM is 35% for the period July 3, 2017 to December 31, 2017 and the actual ETR for 2018 YTD is 27.81%. This resulted in an average ETR of 31.54%.

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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 July 1, 2018	13-Weeks Ended July 2, 2017	26 Weeks Ended July 1, 2018	26-Weeks Ended July 2, 2017	52-Weeks Ended July 1, 2018	52-Weeks Ended July 2, 2017
Net earnings	\$ 49,740	\$ 42,769	\$ 80,096	\$ 80,673	\$ 190,791	\$ 148,233
Addback ⁽¹⁾						
Income taxes	16,333	23,064	30,873	41,726	39,401	79,994
Interest expense	6,347	5,868	10,097	9,832	18,231	9,142
Amortization	17,005	14,137	33,673	27,356	63,919	58,002
Loss (gain) on disposition of property, plant and equipment	45	21	31	(217)	81	(217)
Fair value adjustment for total return swap ⁽⁷⁾	3,090	(1,804)	1,459	(4,582)	1,322	(4,920)
Unrealized foreign exchange loss (gain) on non-current monetary items and forward foreign exchange contracts	(402)	(1,359)	2,719	(2,448)	3,107	291
Costs associated with assessing strategic and corporate initiatives ⁽⁴⁾	91	367	137	461	3,369	479
Past service costs ⁽⁹⁾	672	—	6,482		6,482	—
Non-recurring costs (recoveries) relating to business acquisition ⁽⁵⁾	—	61	—	61	(496)	402
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue ⁽⁶⁾	—	—	266	—	532	1,109
Proportion of the total return swap realized ⁽⁸⁾	(1,948)	1,555	(1,488)	2,845	(369)	3,252
Equity settled stock-based compensation	427	411	896	833	1,516	1,385
Gain on bargain purchase of subsidiary company	—	—	—	—	(1,159)	—
Adjusted EBITDA ⁽²⁾	\$ 91,400	\$ 85,090	\$ 165,241	\$ 156,540	\$ 326,727	\$ 297,152

(Footnotes on page 17)

RECONCILIATION OF NET EARNINGS TO ADJUSTED NET EARNINGS

In Q2 2018, Management adopted an Adjusted Net Earnings and Adjusted Earnings per Share calculation to provide a measure of the company's performance that is aligned with the Company's calculation of Adjusted EBITDA. Adjusted Net Earnings and Adjusted Earnings per Share are used to assess the overall financial performance of the Company. Adjusted Net Earnings and Adjusted Earnings per Share are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. Accordingly, Adjusted Net Earnings and Adjusted Earnings per Share may not be comparable to similar measures presented by other issuers. Readers of this MD&A are cautioned that Adjusted Net Earnings and Adjusted Earnings per Share should not be construed as an alternative to net earnings, or net earnings per Share, determined in accordance with IFRS as indicators of the Company's performance. The Company defines and has computed Adjusted Net Earnings and Adjusted Earnings per Share under "Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Earnings per Share" above. The following tables reconcile net earnings to Adjusted Net Earnings based on the historical unaudited consolidated financial statements of the Company for the periods indicated.

(Unaudited, U.S. dollars in thousands other than earnings per Share and Adjusted Earnings per Share)	13-Weeks Ended July 1, 2018	13-Weeks Ended July 2, 2017	change	26 Weeks Ended July 1, 2018	26-Weeks Ended July 2, 2017	change
Net earnings	\$ 49,740	\$ 42,769	\$ 6,971	\$ 80,096	\$ 80,673	\$ (577)
Earnings per Share (basic)	\$ 0.81	\$ 0.69	\$ 0.12	\$ 1.29	\$ 1.30	\$ (0.01)
Earnings per Share (fully diluted)	\$ 0.80	\$ 0.68	\$ 0.12	\$ 1.28	\$ 1.29	\$ (0.01)
Adjustments, net of tax						
Fair value adjustment of total return swap ⁽⁷⁾	2,327	(1,173)	3,500	1,053	(3,020)	4,073
Unrealized foreign exchange gain (loss)	(303)	(883)	580	1,963	(1,613)	3,576
Portion of the total return swap realized ⁽⁸⁾	(1,467)	1,011	(2,478)	(1,074)	1,875	(2,949)
Costs associated with assessing strategic and corporate initiatives ⁽⁴⁾	69	239	(170)	99	304	(205)
Non recurring costs (recoveries) relating to business acquisition ⁽⁶⁾	—	40	(40)	—	40	(40)
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue ⁽⁵⁾	—	—	—	192	—	192
Equity settled stock-based compensation	322	267	55	647	549	98
Gain on disposition of property, plant and equipment	34	14	20	22	(143)	165
Past service costs ⁽⁹⁾	506	—	506	4,680	—	4,680
Adjusted Net Earnings	\$ 51,228	\$ 42,284	\$ 8,944	\$ 87,678	\$ 78,665	\$ 9,013
Adjusted Earnings per Share (basic)	\$ 0.83	\$ 0.68	\$ 0.15	\$ 1.41	\$ 1.27	\$ 0.14
Adjusted Earnings per Share (fully diluted)	\$ 0.82	\$ 0.67	\$ 0.15	\$ 1.40	\$ 1.26	\$ 0.14

(Footnotes on page 17)

RECONCILIATION OF CASH FLOW TO ADJUSTED EBITDA

(Unaudited, U.S. dollars in thousands)	13-Weeks Ended July 1, 2018	13-Weeks Ended July 2, 2017	26 Weeks Ended July 1, 2018	26-Weeks Ended July 2, 2017	52-Weeks Ended July 1, 2018	52-Weeks Ended July 2, 2017
Net cash generated from operating activities	\$ 48,704	\$ 57,897	\$ 65,579	\$ 147,531	\$ 90,107	\$ 211,629
Addback ⁽¹⁾						
Changes in non-cash working capital items	5,296	(17,913)	30,169	(61,584)	98,814	(36,281)
Defined benefit funding	6,509	750	15,722	5,509	21,689	11,218
Defined benefit expense	(2,045)	(1,262)	(9,200)	(2,523)	(11,827)	(4,038)
Interest paid	5,937	4,721	11,153	9,533	20,375	19,999
Equity settled stock-based compensation	(427)	(411)	(896)	(833)	(1,516)	(1,384)
Gain received on the total return swap settlement	—	—	—	—	—	(509)
Foreign exchange gain (loss) on cash held in foreign currency	(6)	373	273	340	393	(62)
Income taxes paid ⁽³⁾	28,190	38,541	46,148	54,367	97,658	89,953
Costs associated with assessing strategic and corporate initiatives ⁽⁴⁾	91	367	137	461	3,369	479
Past service costs ⁽⁹⁾	672	—	6,482	—	6,482	—
Non-recurring costs relating to business acquisition ⁽⁵⁾	—	61	—	61	(496)	402
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue ⁽⁶⁾	—	—	266	—	532	1,109
Proportion of the total return swap ⁽⁸⁾	(1,948)	1,555	(1,488)	2,845	(369)	3,252
Equity settled stock -based compensation	427	411	896	833	1,516	1,385
Adjusted EBITDA ⁽²⁾	\$ 91,400	\$ 85,090	\$ 165,241	\$ 156,540	\$ 326,727	\$ 297,152

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. 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 \$6.5 million to reflect pension benefits provided to employees for past service. In 2018 Q2, the Company completed an actuarial valuation which resulted in an adjustment of \$0.7 million for past service costs.

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 July 1, 2018	13-Weeks Ended July 2, 2017	26 Weeks Ended July 1, 2018	26-Weeks Ended July 2, 2017	52-Weeks Ended July 1, 2018	52-Weeks Ended July 2, 2017
Net cash generated from operating activities	\$ 48,704	\$ 57,897	\$ 65,579	\$ 147,531	\$ 90,107	\$ 211,629
Changes in non-cash working capital items ⁽³⁾	5,296	(17,913)	30,169	(61,584)	98,814	(36,281)
Interest paid ⁽³⁾	5,937	4,721	11,153	9,533	20,375	19,999
Interest expense ⁽³⁾	(6,012)	(4,586)	(11,357)	(9,496)	(21,146)	(19,857)
Income taxes paid ⁽³⁾	28,190	38,541	46,148	54,367	97,658	89,953
Current income tax expense ⁽³⁾	(17,858)	(29,609)	(32,770)	(48,882)	(65,004)	(90,529)
Principal portion of finance lease payments	(988)	(1,092)	(2,055)	(2,012)	(4,158)	(3,770)
Cash capital expenditures	(18,776)	(9,059)	(30,641)	(15,404)	(68,050)	(31,428)
Proceeds from disposition of property, plant and equipment	41	9	65	367	224	367
Costs associated with assessing strategic and corporate initiatives ⁽⁷⁾	91	367	137	461	3,369	479
Non-recurring transitional costs relating to business acquisition ⁽⁸⁾	—	61	—	61	(496)	402
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue ⁽⁹⁾	—	—	266	—	532	1,109
Defined benefit funding ⁽⁴⁾	6,509	750	15,722	5,509	21,689	11,218
Defined benefit expense ⁽⁴⁾	(2,045)	(1,262)	(9,200)	(2,523)	(11,827)	(4,038)
Past service costs ⁽¹¹⁾	672	—	6,482	—	6,482	—
Gain received on total return swap settlement	—	—	—	—	—	(509)
Proportion of the total return swap ⁽¹⁰⁾	(1,948)	1,555	(1,488)	2,845	(369)	3,253
Foreign exchange gain (loss) on cash held in foreign currency ⁽⁵⁾	(6)	373	273	340	393	(62)
Free Cash Flow (US\$)⁽¹⁾	47,807	40,753	88,483	81,113	168,593	151,935
U.S. exchange rate ⁽²⁾	1.3168	1.2977	1.3042	1.3137	1.2798	1.3196
Free Cash Flow (C\$)⁽¹⁾	62,952	52,885	115,400	106,560	215,762	200,498
Free Cash Flow per Share (C\$) ⁽⁶⁾	1.0216	0.8494	1.8526	1.7173	3.4463	3.2604
Declared dividends on Shares (C\$)	23,593	20,440	44,059	35,171	84,970	64,524
Declared dividends per Share (C\$) ⁽⁶⁾	\$ 0.3829	\$ 0.3250	\$ 0.7073	\$ 0.5592	\$ 1.3629	\$ 1.0259

- (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, Free Cash Flow, Adjusted Net Earnings and Adjusted Earnings per Share".
- (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 Q2 was 61,621,912, 62,289,992 for 2018 YTD and 62,605,734 for the 2018 Q2 LTM. The weighted average number of Shares outstanding for 2017 Q2 was 62,264,151, 62,052,240 for 2017 YTD and 61,494,265 for the 2017 Q2 LTM. 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) 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 \$6.5 million to reflect pension benefits provided to employees for past service. In 2018 Q2, the Company completed an actuarial valuation related to the past service costs which resulted in an adjustment of \$0.7 million.

Capital Allocation Policy

The Company has established a capital allocation policy based on an operating model intended to provide consistent and predictable cash flow and maintaining a strong balance sheet. This policy has established guidelines that are reviewed by the board of directors ("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, income taxes, 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 tend to be seasonal with the highest level of deliveries typically occurring in the fourth fiscal quarter of each year. The Company manages this seasonality both through scheduled 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 July 1, 2018 liquidity position of \$210.6 million was comprised of available cash of \$15.6 million and \$195.0 million available under the Revolver as compared to a liquidity position of \$222.3 million at December 31, 2017. The decrease in liquidity primarily related to improved cash flows from operations offset by cash used to acquire PPE and capital returned to shareholders through dividends and repurchases of Shares under the NCIB. Changes in non-cash working capital are primarily a result of seasonality and are expected to be temporary in nature. As at July 1, 2018, there were \$134.1 million of direct borrowings and \$13.9 million of outstanding letters of credit related to the \$343.0 million Revolver.

Management believes that these funds, together with other borrowing 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. (NABI) 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 July 1, 2018, the Company was in compliance with the ratios. The results of the financial covenant tests as of such date are as follows:

	July 1, 2018	December 31, 2017
Total Leverage Ratio (must be less than 3.50)	1.89	1.84
Interest Coverage Ratio (must be greater than 3.00)	15.67	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 translated to C\$63.0 million in 2018 Q2 compared to declared dividends of C\$23.6 million during this period. For 2018 Q2 LTM, Free Cash Flow translated to C\$215.8 million compared to declared dividends of C\$85.0 million. In comparison to 2017 Q2 LTM, Free Cash Flow measured in Canadian dollars increased by 7.7% while dividends increased by 31.7%. This resulted in an annual payout ratio of 39.4% and 32.2% in 2018 Q2 LTM and 2017 Q2 LTM, respectively.

On June 11, 2018, the Company announced that the TSX had accepted a notice filed by the Company of its intention to implement the NCIB to repurchase its Shares through the facilities of the TSX. Purchases under the NCIB can be made through the facilities of the TSX and any alternative Canadian trading systems on which the Shares are traded. Pursuant to the NCIB, the Company is permitted to repurchase for cancellation up to 2,774,733 Shares, representing approximately 5% of the outstanding public float of Shares on June 4, 2018, to commence on June 14, 2018 until June 13, 2019, or earlier should the Company complete its repurchases prior to such date. Shareholders may obtain a copy of Form 12, without charge, by contacting the Company. The actual number of Shares to be purchased and the timing and pricing of any purchases under the NCIB will depend on future market conditions and potential alternative uses for cash resources. The Company may elect to modify, suspend or discontinue the program at any time without prior notice. During 2018 Q2, the Company repurchased 283,800 Shares (of which 67,400 Shares were settled and canceled after July 1, 2018) at an average price of C\$49.07 per Share for a total repurchase cost of \$8.2 million during 2018 Q2 and \$2.5 million settled after July 1, 2018.

Total Capital Distributions to Shareholders (U.S. dollars in millions)	2018 Q2	2017 Q2	2018 YTD	2017 YTD
Dividends	\$ 15.9	\$ 11.1	\$ 32.2	\$ 22.0
NCIB Share repurchase	8.2	—	8.2	—
Total	\$ 24.1	\$ 11.1	\$ 40.4	\$ 22.0

On May 9, 2018 the Board approved an annual dividend rate increase to C\$1.50 per Share from an annual rate of C\$1.30 per Share, effective for dividends declared subsequent to 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 are traditionally relatively stable 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 Q2, approximately 87% of revenue was USD denominated and approximately 13% was CAD denominated. As at July 1, 2018, the backlog consisted of firm CAD orders of 555 EUs (\$246.4 million U.S. equivalent) representing approximately 14.7% of firm orders. Canadian options at July 1, 2018 totaled 254 EUs (\$110.8 million U.S. equivalent) representing approximately 3.2% 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 Q2, the Company recorded a realized foreign exchange loss of \$1.3 million (2017 Q2: \$0.2 million loss).

At July 1, 2018, the Company had \$110 million of foreign exchange forward and option contracts to buy Canadian dollars with U.S. dollars at an average agreed exchange rate of \$0.78. These foreign exchange contracts range in expiry dates from July 2018 to January 2019. The 2018 Q2 related liability of \$1.9 million (2017 Q2: \$1.4 million asset) 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 manufacturing operations to aftermarket operations. In 2018 the MCI service function, comprised of technical service management and customer training, which was previously managed by the MCI aftermarket operations, 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	\$ —	\$ —	\$ —	\$ —	\$ —
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 Q2 (13-Weeks)	2017 Q2 (13-Weeks) (restated)	2018 YTD (26-weeks)	2017 YTD (26-weeks)
Manufacturing Revenue	\$ 574,590	\$ 519,489	\$ 1,053,169	\$ 995,422
Aftermarket Revenue	98,435	93,941	198,490	190,155
Total Revenue	\$ 673,025	\$ 613,430	\$ 1,251,659	\$ 1,185,577
Earnings from Operations	72,063	70,363	123,816	129,566
Earnings before interest and income taxes	72,420	71,701	121,066	132,231
Earnings before income tax expense	66,073	65,833	110,969	122,399
Net earnings for the period	49,740	42,769	80,096	80,673

Revenue

The Company generated consolidated revenue of \$673.0 million for 2018 Q2, an increase of 9.7% compared to consolidated revenue for 2017 Q2 of \$613.4 million, and consolidated revenue of \$1.3 billion for 2018 YTD, an increase of 5.6% compared to consolidated revenue for 2017 YTD of \$1.2 billion.

Revenue from manufacturing operations for 2018 Q2 increased by 10.6% compared to 2017 Q2. The increase in 2018 Q2 revenue primarily resulted from a 17.0% increase in new transit bus, coach and cutaway deliveries compared to 2017 Q2, as well as the inclusion of the revenue generated from third parties by the fiberglass reinforced polymer component operations. This increase was offset by a 5.7% decrease in new transit bus, coach and cutaway average selling price per EU in 2018 Q2 compared to 2017 Q2. Volume increased as a result of higher transit bus and motor coach deliveries and the inclusion of ARBOC cutaway deliveries. 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 that have a substantially lower selling price than the average heavy-duty transit bus or motor coach). Manufacturing operations revenue for 2018 Q2 of \$574.6 million is \$45.6 million higher when compared to pro forma manufacturing business revenue for 2017 Q2. Similarly, revenue from manufacturing operations for 2018 YTD increased 5.8% compared to 2017 YTD. The increase in 2018 YTD revenue primarily relates to increased deliveries of 14.3% when compared to 2017 YTD offset by a decrease in new transit bus, coach and cutaway average selling price per EU in 2018 YTD of 8.0% when compared to 2017 YTD. Manufacturing business revenue for 2018 YTD of \$1,053.2 million is \$39.3 million higher when compared to pro forma manufacturing business revenue (which includes ARBOC) for 2017 YTD.

	2018 Q2	2017 Q2	% change	2018 YTD	2017 YTD	% change
Deliveries (EUs)						
Transit buses	739	719	2.8 %	1,410	1,370	2.9 %
Motor coaches	287	272	5.5 %	474	513	(7.6)%
Medium-duty and cutaway buses	133	—	100.0 %	268	—	100.0 %
Total new deliveries	1,159	991	17.0 %	2,152	1,883	14.3 %
Pre-owned coach deliveries	102	110	(7.3)%	166	175	(5.1)%

Consolidated Revenue (U.S. dollars in millions)	2018 Q2	2017 Q2	% change	2018 YTD	2017 YTD	% change
Transit buses	\$ 397.1	\$ 359.1	10.6 %	\$ 754.9	\$ 702.6	7.4 %
Motor coaches	150.7	147.0	2.5 %	248.4	272.3	(8.8)%
Medium-duty and cutaway buses	10.2	—	100.0 %	21.3	—	100.0 %
Total new transit bus, coach and cutaway revenue	\$ 558.0	\$ 506.1	10.3 %	\$ 1,024.6	\$ 974.9	5.1 %
Pre-owned coach revenue	11.7	13.4	(12.7)%	19.8	20.5	(3.4)%
Fiberglass reinforced polymer components	4.9	—	100.0 %	8.8	—	100.0 %
Manufacturing Revenue	\$ 574.6	\$ 519.5	10.6 %	\$ 1,053.2	\$ 995.4	5.8 %

Revenue from aftermarket operations in 2018 Q2 increased by 4.8% compared to 2017 Q2. Revenue from aftermarket operations in 2018 YTD increased by 4.4% compared to 2017 YTD.

Cost of sales

The consolidated cost of sales for 2018 Q2 of \$548.2 million increased by 11.0% from 2017 Q2 consolidated cost of sales of \$494.0 million. This increase primarily relates to the corresponding increase in revenues, normal variation in sales mix 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 Q2 of \$477.4 million (83.1% of revenue from manufacturing operations) increased 11.2% compared to \$429.2 million (82.6% of revenue from manufacturing operations) in 2017 Q2. The change in cost of sales primarily relates to the corresponding increase in volume as a result of higher transit bus and motor coach deliveries and the inclusion of ARBOC deliveries, customer mix fluctuations and offset by continued cost reductions through the Company's OpEx initiatives, including increased insourcing of material fabrication and the material cost savings achieved as a result of the MCI acquisition in December 2015. Similarly, cost of sales from manufacturing operations for 2018 YTD of \$877.8 million increased 5.5% compared to the \$831.8 million in 2017 YTD. The change in cost of sales primarily relates to the corresponding increase in volume as a result of higher transit bus deliveries, the inclusion of ARBOC deliveries and continued cost reductions through the Company's OpEx initiatives, including increased insourcing of material fabrication and the material cost savings achieved as a result of the MCI acquisition in December 2015 offset by fewer motor coach deliveries and customer mix fluctuations.

The cost of sales from aftermarket operations of \$70.8 million (71.9% of aftermarket operations revenue) in 2018 Q2 increased 9.1% compared to \$64.9 million (69.1% of aftermarket operations revenue) in 2017 Q2 primarily as a result of increased aftermarket volume at reduced margins when comparing the two periods. The cost of sales from aftermarket operations of \$142.5 million (71.8% of aftermarket operations revenue) in 2018 YTD increased 9.0% compared to \$130.7 million (68.7% of aftermarket operations revenue) in 2017 YTD. The changes in both periods are primarily as a result of increased aftermarket volume at reduced 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 4.8% in 2018 Q2 as compared to 2017 Q2 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, which is 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 Q2 of \$51.5 million (7.6% of revenue) increased 5.3% compared with \$48.9 million (8.0% of revenue) in 2017 Q2. The consolidated SG&A for 2018 YTD of \$106.8 million (8.4% of revenue) increased 14.8% compared with \$93.0 million (7.8% of revenue) in 2017 YTD. The increase in the 2018 YTD SG&A was primarily as a result of a \$6.5 million past service cost adjustment based on the collective bargaining agreement which was ratified by the NFI ULC collective bargaining unit in Winnipeg on April 8, 2018, as well as the inclusion of both ARBOC and Carfair costs for the fiberglass reinforced polymer components operations.

Realized foreign exchange loss/gain

During 2018 Q2, the Company recorded a realized foreign exchange loss of \$1.3 million (2017 Q2: \$0.2 million loss), similarly during 2018 YTD the Company recorded a realized foreign exchange loss of \$0.8 million (2017 YTD: \$1.0 million loss). Foreign exchange fluctuations are 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 Q2 in the amount of \$72.1 million (10.7% of revenue) increased 2.4% compared to earnings from operations in 2017 Q2 of \$70.4 million (11.5% of revenue). 2018 YTD Consolidated earnings from operations were \$123.8 million (9.9% of revenue) which represents a 4.5% decrease compared to \$129.6 million (10.9% of revenue) in 2017 Q2.

The earnings from manufacturing operations (including amortization and depreciation) for 2018 Q2 of \$54.7 million (9.5% of manufacturing revenue) increased 2.2% compared to earnings of \$53.5 million for 2017 Q2 (8.0% of manufacturing revenue). 2018 YTD earnings from manufacturing operations of \$88.3M (8.4% of manufacturing revenue) decreased 1.7% compared to earnings of \$89.8 million for 2017 YTD (9.0% of manufacturing revenue). The YTD decrease primarily relates to increases in SG&A as a result of the \$6.5 million charge for past service costs, increased amortization offset by favourable margins.

The earnings from aftermarket operations of \$17.4 million (17.7% of aftermarket revenue) in 2018 Q2 decreased 7.0% compared to 2017 Q2 earnings of \$18.7 million (20.0% of aftermarket revenue). The earnings from aftermarket operations of \$35.5 million (17.8% of aftermarket revenue) in 2018 YTD decreased 10.8% compared to 2017 YTD earnings of \$39.8 million (20.9% 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 Q2	2017 Q2	2018 YTD	2017 YTD
Unrealized (gain) loss on forward foreign exchanges contracts	\$ (290)	\$ (1,486)	\$ 3,286	\$ (2,721)
Unrealized (gain) loss on other long-term monetary assets/liabilities	(112)	127	(567)	273
	\$ (402)	\$ (1,359)	\$ 2,719	\$ (2,448)

Earnings before interest and income taxes ("EBIT")

In 2018 Q2, the Company recorded EBIT of \$72.4 million compared to EBIT of \$71.7 million in 2017 Q2. Similarly, the Company recorded 2018 YTD EBIT of \$121.1 million compared to EBIT of \$132.2 million in 2017 YTD. EBIT has been impacted by non-cash and non-recurring items as follows:

(Unaudited, U.S. dollars in thousands)	2018 Q2	2017 Q2	2018 YTD	2017 YTD
Non-cash and non-recurring charges:				
Costs associated with assessing strategic and corporate initiatives	\$ 91	\$ 367	\$ 137	\$ 461
Unrealized foreign exchange (gain) loss	(402)	(1,359)	2,719	(2,448)
Equity settled stock-based compensation	427	411	896	833
Loss (gain) on disposition of property, plant and equipment	45	21	31	(217)
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue	—	—	266	—
Fair value adjustment of total return swap	3,090	(1,804)	1,459	(4,582)
Past service costs	672	—	6,482	—
Non-recurring costs related to business acquisition	—	61	—	61
Amortization	17,005	14,137	33,673	27,356
Total non-cash and non-recurring charges:	\$ 20,928	\$ 11,834	\$ 45,663	\$ 21,464

Absent these non-cash and non-recurring charges, the 2018 Q2 would have been \$93.3 million compared to \$83.5 million in 2017 Q2 and 2018 YTD would have been \$166.8 million compared to 2017 YTD of \$143.8 million.

Interest and finance costs

The interest and finance costs for 2018 Q2 of \$6.3 million increased 8.2% when compared to \$5.9 million in 2017 Q2. The increase 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, offset by an increase in interest caused by the increased level of borrowing on the Revolver to facilitate the acquisition of ARBOC. Similarly, the interest and finance costs for 2018 YTD of \$10.1 million increased 3.1% compared to \$9.8 million in 2017 YTD.

Earnings before income taxes ("EBT")

EBT for 2018 Q2 of \$66.1 million increased compared to EBT of \$65.8 million in 2017 Q2 and the EBT for 2018 YTD of \$111.0 million decreased compared to EBT of \$122.4 million in 2017 YTD. The difference in the EBT between these periods results primarily from the decreased EBIT.

Income tax expense

The income tax expense for 2018 Q2 was \$16.3 million, consisting of \$17.9 million of current income tax expense offset by \$1.5 million of deferred income tax expense recovered. In comparison, the income tax expense for 2017 Q2 was \$23.1 million, consisting of \$29.6 million of current income tax expense and \$6.5 million of deferred income tax recovery. The income tax expense for 2018 YTD was \$30.9 million, consisting of \$32.8 million of current income tax expense offset by \$1.9 million of deferred income tax expense recovered. In comparison,

the income tax expense for 2017 YTD was \$41.7 million, consisting of \$48.9 million of current income tax expense and \$7.2 million of deferred income tax recovery.

Current income tax expense recorded in 2018 decreased by \$16.1 million primarily due to U.S. Tax Reform.

The ETR for 2018 Q2 of 24.7% decreased compared to the ETR of 35.0% in 2017 Q2. The ETR for 2018 YTD of 27.8% decreased compared to the ETR of 34.1% in 2017 YTD. The ETR decreased mostly due to U.S. Tax Reform.

Net earnings

The Company reported net earnings of \$49.7 million in 2018 Q2, an increase of 16.4% compared to net earnings of \$42.8 million in 2017 Q2 and 2018 YTD net earnings of \$80.1 million, a decrease of 0.1% compared to net earnings of \$80.7 million in 2017 YTD. The decrease in net earnings in 2018 YTD are primarily as a result of the following events: a \$4.7 million past service cost adjustment (net of tax) related to a collective bargaining agreement which commenced on April 1, 2018 and a \$3.7 million (net of tax) unrealized foreign exchange loss on non-current monetary items offset by favourable tax expense.

Net earnings (U.S. dollars in millions)	2018 Q2	2017 Q2	\$ change	2018 YTD	2017 YTD	\$ change
Earnings from operations	\$ 72.1	\$ 70.4	\$ 1.7	\$ 123.8	\$ 129.6	\$ (5.8)
Non-cash gain (loss)	0.3	1.3	(1.0)	(2.8)	2.6	(5.4)
Interest expense	(6.4)	(5.9)	(0.5)	(10.1)	(9.8)	(0.3)
Income tax expense	(16.3)	(23.0)	6.7	(30.9)	(41.7)	10.8
Net earnings	\$ 49.7	\$ 42.8	\$ 6.9	\$ 80.1	\$ 80.7	\$ (0.6)
Net earnings per Share (basic)	\$ 0.81	\$ 0.69	\$ 0.12	\$ 1.29	\$ 1.30	\$ (0.01)
Net earnings per Share (fully diluted)	\$ 0.80	\$ 0.68	\$ 0.12	\$ 1.28	\$ 1.29	\$ (0.01)

The Company's net earnings per Share in 2018 Q2 of \$0.81 increased 17.4% from net earnings per Share of \$0.69 generated in 2017 Q2. The Company's net earnings per Share in 2018 YTD of \$1.29 did not change from net earnings per Share of \$1.30 generated in 2017 YTD.

Cash Flow

The cash flows of the Company are summarized as follows:

(Unaudited, U.S. dollars in thousands)	2018 Q2	2017 Q2	2018 YTD	2017 YTD
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	\$ 88,127	\$ 83,246	\$ 153,049	\$ 149,847
Interest paid	(5,937)	(4,721)	(11,153)	(9,533)
Income taxes paid	(28,190)	(38,541)	(46,148)	(54,367)
Net cash earnings	54,000	39,984	95,748	85,947
Cash flow (used in) generated from changes in working capital	(5,296)	17,913	(30,169)	61,584
Cash flow generated from operating activities	48,704	57,897	65,579	147,531
Cash flow generated (used in) financing activities	(29,678)	(31,657)	(9,754)	(102,292)
Cash flow used in investing activities	(18,748)	(20,521)	(30,594)	(26,550)

Cash flows from operating activities

The 2018 Q2 net operating cash inflow of \$48.7 million is the result of \$54.0 million of net cash earnings and a decrease in non-cash working capital of \$5.3 million, compared to 2017 Q2 net operating cash inflow of \$57.9 million resulting from \$40.0 million of net cash earnings and an increase in non-cash working capital of \$17.9 million. The increase in non cash working capital in 2017 Q2 is primarily a result of increased inventory levels in the coach business at January 1, 2017 as a result of the deferral of deliveries to New Jersey Transit. This inventory decreased in 2017 YTD as the Company recovered these deliveries, in addition to seasonality that is expected to be temporary in nature.

Cash flow from financing activities

The cash outflow during 2018 Q2 primarily related to total draws against the Revolver of \$5.2 million and \$21.1 million of capital returned to shareholders through dividends and Shares repurchased under the NCIB.

Cash flow from investing activities

2018 Q2 investing activities resulted in a net cash outflow of \$18.7 million compared to a net cash outflow of \$20.5 million in 2017 Q2 primarily resulting from the acquisition of Carlson for \$11.5 million and PPE expenditures as follows:

(Unaudited, U.S. dollars in thousands)	2018 Q2	2017 Q2	2018 YTD	2017 YTD
PPE expenditures	\$ 25,065	\$ 9,197	\$ 42,010	\$ 15,888
Less PPE expenditures funded by capital leases	(6,289)	(138)	(11,369)	(484)
Cash acquisition of PPE reported on statement of cash flows	\$ 18,776	\$ 9,059	\$ 30,641	\$ 15,404

The increase in 2018 Q2 PPE expenditures when compared to 2017 Q2 is due to an increased level of investment into MCI's and Carfair's operations, expansion of the 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 \$9.5 million at 2018 Q2 (2017 Q2: \$5.0 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 of counterparties that 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 FTA, 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 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:

	July 1, 2018	December 31, 2017
Current, including holdbacks	\$ 355,214	\$ 361,805
Past due amounts but not impaired		
1 - 60 days	15,655	22,306
Greater than 60 days	5,377	2,878
Less: allowance for doubtful accounts	(766)	(522)
Total accounts receivables, net	\$ 375,480	\$ 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 July 1, 2018:

U.S. dollars in thousands	Total	2018	2019	2020	2021	2022	Post 2022
Term credit facility	\$ 506,749	\$ 8,435	\$ 498,313	\$ 0	\$ —	\$ —	\$ —
Other long-term liabilities	1,107	0	1,107	—	—	—	—
Finance leases	24,733	3,803	7,202	5,604	4,955	2,095	1,034
Accrued benefit liability	13,144	12,307	527	310	—	—	—
Operating leases	91,163	7,112	12,453	11,284	10,909	10,069	39,335
	\$ 636,896	\$ 31,657	\$ 519,602	\$ 17,198	\$ 15,864	\$ 12,164	\$ 40,369

As at July 1, 2018, outstanding surety bonds guaranteed by the Company amounted to \$397.8 million, representing an increase compared to \$352.7 million at April 1, 2018. The estimated maturity dates of the surety bonds outstanding at July 1, 2018 range from July 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 July 1, 2018, letters of credit amounting to \$13.9 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 July 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	(468,117)	—	(22,239)	—	March 26, 2021	C\$10.20	C\$1.55
December 30, 2013	612,050	(506,477)	(9,631)	(95,942)	—	December 30, 2021	C\$10.57	C\$1.44
December 28, 2014	499,984	(158,539)	(11,368)	(208,870)	121,207	December 28, 2022	C\$13.45	C\$1.83
December 28, 2015	221,888	(12,832)	—	(98,116)	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	(1,610)	—	(36,247)	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	(1,147,575)	(20,999)	(461,957)	500,220		C\$26.75	

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
Exercised during the period	(170,039)	C\$12.03	(347,185)	C\$11.31
Balance at end of period	962,177	C\$26.75	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 \$171.7 thousand of director restricted Share units ("Director RSUs") in 2018 Q2. Of these Director RSUs issued, approximately \$371.4 thousand were exercised and exchanged for 5,902 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 RSUs. 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 July 1, 2018, the Company held a total return swap derivative financial instrument with a position of 438,286 Shares at a weighted average price of C\$34.17. 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.

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 the 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. This 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 cutaways 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 a 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 delivery of a new transit bus, coach 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 were recorded at that time of delivery of the new transit bus, coach or cutaway 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 is now required to be recorded as deferred. There is therefore, no retained earnings impact in the transitional adjustment and the adjustment will only affect the 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 ARBOC, as it was acquired not more than 365 days before the end of the financial period to which this MD&A relates.

Management believes there have been no changes in the Company’s ICFR during 2018 Q2 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 ARBOC, as it was acquired not more than 365 days before the end of the financial period to which this MD&A relates. The Company’s CEO and CFO have concluded that disclosure controls and procedures as at December 31, 2017 were effective.

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		118,589
Current liabilities		(3,789)
Non-current liabilities		(27,084)
Cash purchase price	\$	96,578