November 6, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS AND 39-WEEKS ENDED SEPTEMBER 30, 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 Q3") and the 39-week period ("2018 YTD") ended September 30, 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.

QUARTERLY AND ANNUAL REPORTING PERIODS

The quarterly and annual reporting periods for the current and prior year are as follows.

	Period from January 1, 2018 to December 30, 2018 ("Fiscal 2018")			Period from January 2, 2017 to December 31, 2017 ("Fiscal 2017")		
	Period End Date		# of Calendar Weeks	Period End Date		# of Calendar Weeks
Quarter 1	April 1, 2018	("2018 Q1")	13	April 2, 2017	("2017 Q1")	13
Quarter 2	July 1, 2018	("2018 Q2")	13	July 2, 2017	("2017 Q2")	13
Quarter 3	September 30, 2018	("2018 Q3")	13	October 1, 2017	("2017 Q3")	13
Quarter 4	December 30, 2018	("2018 Q4")	13	December 31, 2017	("2017 Q4")	13
Fiscal year	December 30, 2018		52	December 31, 2017		52

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 September 30, 2018, 62,385,916 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 travel over 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. 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 USMCA, 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 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 over 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 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 ("ZEBs") includes trolley-electric, battery-electric and fuel cell electric buses and motor coaches.

- 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 (MCI) is North America's motor coach leader in public and private markets, offering the J4500 (the industry best-seller for 13 consecutive years) and the all-new J3500 model (the workhorse D-Series including the breakthrough ADA-accessible MCI D45 CRT LE). MCI also supports nearly 30,000 MCI coaches on the road with maintenance, repair, 24-hour roadside assistance, and the industry's only Automotive Service Excellence (ASE) accredited MCI Academy technician training center.

- ARBOC is North America's low-floor, body-on-chassis ("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 bus and motor coach parts organization, providing replacement parts, technical publications, training, service, and support.

2018 Third Quarter Financial Results

Year-over-year comparisons reported in this MD&A compare the 39-week period ended September 30, 2018 ("2018 YTD") to the 39-week period ended October 1, 2017 ("2017 YTD"). Organizational changes to better align business functions within operating segments were made effective January 2, 2017. These organizational changes were implemented in two phases. In 2017, over-the-counter parts sales were moved from coach 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.

On December 1, 2017, the Company acquired ARBOC. 2018 Q3 is the third fiscal quarter that includes ARBOC's financial performance. Proforma results for 2018 Q3 and 2018 Q3 YTD have been provided below to enhance comparison between periods. To enhance comparability between the periods, proforma results for 2017 Q3 and 2017 YTD are provided. If ARBOC had been acquired on January 2, 2017, the consolidated pro forma revenue, Adjusted EBITDA and deliveries for 2017 Q3 and 2017 YTD would have been as follows:

Revenue - Manufacturing Segment Only (Unaudited, U.S. dollars in millions)	**2017 Q3**	**2017 YTD**
ARBOC Cutaway buses revenue	$ 9.4	$ 28.6
NFI's manufacturing revenue	454.1	1,449.5
NFI's pro forma revenue	$ 463.5	$ 1,478.1

Adjusted EBITDA - Manufacturing Segment Only (Unaudited, U.S. dollars in thousands)	**2017 Q3 (restated)**	**2017 YTD (restated)**
ARBOC's pro forma manufacturing Adjusted EBITDA[(1)]	2,005	6,965
NFI's manufacturing Adjusted EBITDA	54,680	171,404
NFI pro forma manufacturing Adjusted EBITDA	$ 56,685	$ 178,369
NFI pro forma Adjusted EBITDA per EU	$ 58.5	$ 58.7

Deliveries	**2017 Q3**	**2017 YTD**
ARBOC Cutaway sales (EUs)	92	278
NFI New transit bus and coach	877	2,760
Total pro forma deliveries	969	3,038

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

Deliveries (EUs)	**2018 Q3**	**2017 Q3**	**2018 YTD**	**2017 YTD**
New transit bus, coach and cutaway	1,035	877	3,187	2,760
Pre-owned coach	115	89	281	264
Average EU selling price (Unaudited, U.S. dollars in thousands)				
New transit bus, coach and cutaway	$ 476.5	$ 505.8	$ 476.2	$ 514.2
Pre-owned coaches	$ 134.8	$ 111.2	$ 125.6	$ 115.2

Consolidated Revenue (Unaudited, U.S. dollars in millions)	**2018 Q3**	**2017 Q3**	**2018 YTD**	**2017 YTD**
New transit bus, coach and cutaway	$ 493.1	$ 443.6	$ 1,517.8	$ 1,418.5
Pre-owned coach	15.5	9.9	35.3	30.4
Fiberglass reinforced polymer components	3.5	0.6	12.3	0.6
Manufacturing	512.1	454.1	1,565.4	1,449.5
Aftermarket	93.2	87.6	291.6	277.8
Total Revenue	$ 605.3	$ 541.7	$ 1,857.0	$ 1,727.3

Revenue increased by $63.6 million in 2018 Q3 compared to 2017 Q3, an increase of 11.7%.

Manufacturing revenue for 2018 Q3 increased by $58 million, or 12.8% compared to 2017 Q3. The increase is primarily driven by a 16.9% volume increase in new transit bus, coach and cutaway deliveries. The increase was partially offset by a 5.8% decrease in average selling prices for transit bus, coach and cutaway vehicles.

Manufacturing revenue for 2018 YTD increased by $115.9 million compared to 2017 YTD, an increase of 8.0%. Similar to the 2018 Q3 increase in manufacturing revenue, it was primarily driven by volume increases in transit bus, coach and cutaway, plus positive contribution from the inclusion of the fiber reinforced polymer ("FRP") component operations partially offset by lower average EU selling prices.

Average EU selling prices for both 2018 Q3 and 2018 YTD decreased compared to the same periods in 2017 driven by sales mix and margin pressure in the coach business partially offset by positive sales mix and margin related to the transit business. The average EU selling price now includes ARBOC's units, which have a substantially lower selling price than the average heavy-duty transit bus or motor coach.

Manufacturing revenue for 2018 Q3 increased by $48.6 million or 10.4% compared to 2017 Q3 pro forma manufacturing revenue. The increase is primarily driven by a 6.8% volume increase. The increase was partially offset by a $1.9 thousand, or 0.4%, decrease in average EU selling price of$476.5 thousand compared to $478.3 thousand a decrease of $1.9 thousand or 0.4% compared to the pro forma manufacturing Average EU selling price in 2017 Q3.

Manufacturing revenue for 2018 YTD increased by $87.3 million or 5.9% compared to 2017 YTD pro forma manufacturing revenue. The increase is primarily driven by a 4.9% volume increase in new transit bus, coach and cutaway deliveries. Partially offsetting the increase is a lower average EU selling price of $476.2 thousand a decrease of $10.3 thousand compared to the pro forma manufacturing Average EU selling price in 2018 Q3 YTD.

Average EU selling prices for both 2018 Q3 and 2018 YTD decreased compared to pro forma revenue for the same periods in 2017 driven by sales mix and margin pressure in the coach business partially offset by positive sales mix and margin related to the transit business.

Revenue from aftermarket operations in 2018 Q3 increased by $5.6 million, or 6.4% compared to 2017 Q3 and 2018 YTD increased by $13.8 million, or 5.0%, compared to the same period in 2017. In both 2018 Q3 and 2018 YTD, the increase was driven by higher volumes offset by the negative impact of the termination of MCI's Distribution Rights Agreement ("DRA"). The termination of the DRA with respect to sales of Daimler's Setra motor coaches and spare parts in North America took effect July 1, 2018.

Adjusted EBITDA (Unaudited, U.S. dollars in millions)	2018 Q3	2017 Q3 (restated)	2018 YTD	2017 YTD (restated)
Manufacturing	$ 53.0	$ 52.6	$ 179.2	$ 165.6
Aftermarket	17.3	18.4	56.3	61.9
Total Adjusted EBITDA	$ 70.3	$ 71.0	$ 235.5	$ 227.5
Adjusted EBITDA % of revenue				
Manufacturing	10.4%	11.6%	11.5%	11.4%
Aftermarket	18.5%	21.0%	19.3%	22.3%
Total	11.6%	13.1%	12.8%	13.2%

Manufacturing Adjusted EBITDA per new EU delivered (Unaudited, U.S. dollars in millions)	**2018 Q3**	**2017 Q3 (restated)**	**2018 YTD**	**2017 YTD (restated)**
Manufacturing Adjusted EBITDA	$ 53.0	$ 52.6	$ 179.2	$ 165.6
New transit bus, coach and cutaway deliveries (EUs)	1,035	877	3,187	2,760
Manufacturing Adjusted EBITDA per new EU delivered (in thousands)	$ 51.2	$ 60.0	$ 56.2	$ 60.0

Consolidated Adjusted EBITDA for 2018 Q3 decreased by $0.7 million, or 1.0% compared to 2017 Q3 and 2018 YTD increased by $8.0 million, or 3.5% compared to 2017 YTD.

The 2018 Q3 and 2018 YTD manufacturing Adjusted EBITDA increased by 0.8% and 8.2% respectively, compared to 2017 Q3 corresponding periods, primarily as a result of increased volume. The increase in volume was partially offset by start up costs of $1.6 million in 2018 Q3 and $3.2 million 2018 YTD associated with the Shepherdsville, KY parts fabrication facility, price reductions on selling new and pre-owned Setra coaches post termination of the DRA of $2.2 million for both 2018 Q3 and 2018 YTD. Losses associated with the Wisconsin-based FRP business of $0.2 million in 2018 Q3 and $1.0 million in 2018 YTD further decreased Adjusted EBITDA. In addition, Adjusted EBITDA was impacted by favourable sales mix and margins related to the transit bus business offset by adverse sales mix and margins related to the motor coach business. Margins can vary significantly from period-to-period due to factors such as pricing, order size, propulsion system, product type and options specified by the customer.

The 2018 Q3 and 2018 YTD aftermarket Adjusted EBITDA decreased by 5.9% and 9.0% respectively, compared to 2017 corresponding periods, primarily due to the impact of sales mix, margin pressure and the negative impact from termination of the DRA.

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.

(Unaudited, U.S. dollars in millions)		2018 Q3		2017 Q3		2018 YTD		2017 YTD
Net earnings	$	37.0	$	34.6	$	117.1	$	115.2
Adjusted net earnings		35.8		34.4		123.4		113.0
Net earnings per share	$	0.59	$	0.55	$	1.87	$	1.85
Adjusted earnings per share	$	0.57	$	0.55	$	1.97	$	1.81

Net earnings during 2018 Q3 increased by $2.4 million, or 6.9% compared to 2017 Q3. Net earnings per common share of NFI ("Share") increased by $0.04, primarily from higher volumes and lower taxes as a result of U.S. tax reform partially offset by increased finance costs and the previously mentioned impacts on Adjusted EBITDA. Net earnings during 2018 YTD net earnings increased by $1.9 million, or 1.6% for the same reasons noted above.

Adjusted Net Earnings during 2018 Q3 increased by $1.4 million compared to 2017 Q3 resulting in an increase in Adjusted Earnings per Share in 2018 Q3 of $0.02, primarily as a result of a decrease in income tax expense as a result of U.S. tax reform. Similarly, Adjusted Net Earnings for 2018 YTD increased by $10.4 million or 9.2%, when compared to 2017 YTD.

Free Cash Flow (Unaudited, dollars in millions)		2018 Q3		2017 Q3		2018 YTD		2017 YTD
Free Cash Flow (U.S. dollars)	$	28.8	$	20.8	$	117.2	$	101.9
Free Cash Flow (CAD dollars)	$	37.2	$	25.9	$	152.6	$	132.5
Declared dividends (CAD dollars)	$	23.4	$	20.5	$	67.4	$	55.6
Payout Ratio (Declared dividends divided by Free Cash Flow)		62.9%		79.2%		44.2%		42.0%

Free cash flow in 2018 Q3 increased by $8.0 million or 38.5% when compared to 2017 Q3 primarily due to the impact of reduced income tax rates. The amount of dividends declared increased by 14.1% in 2018 Q3 as a result of the increase in the annual dividend rate from C$1.30 to C$1.50 per Shares, taking into account Shares repurchased under the Company's normal course issuer bid ("NCIB").

Free cash flow in 2018 YTD increased 15.0% when compared to 2017 YTD primarily due to increased Adjusted EBITDA and the impact of a reduction in income taxes. The amount of dividends declared increased by 21.2% in 2018 YTD as a result of the increases in the annual dividend rates.

The Company returned $39.3 million back to shareholders in 2018 Q3 as a result of Share repurchases under the NCIB and dividends which represents an increase of 163.0% when compared to $24.1 million in 2018 Q2. Similarly the Company returned $79.7 million in 2018 YTD which represents an increase of 210.8% when compared to $37.8 million in 2017 YTD.

The liquidity position of $192.2 million as at September 30, 2018 is comprised of available cash of $1.6 million and $190.6 million available under the revolving credit facility ("Revolver") as compared to a liquidity position of $210.6 million at July 1, 2018. The decrease in liquidity primarily relates to capital returned to shareholders through dividends and the repurchase of Shares under the NCIB and increased capital expenditures. Changes in non-cash working capital are primarily a result of seasonality and are expected to be temporary in nature. The new credit facility entered into on Octrober 25, 2018 ("Credit Facility") improves the Company's liquidity by $175 million. 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 ("PPE) expenditures (Unaudited, U.S. dollars in millions)	**2018 Q3**	**2017 Q3**	**2018 YTD**	**2017 YTD**
PPE expenditures	$ 25.2	$ 17.1	$ 67.2	$ 33.0
Less PPE expenditures funded by capital leases	(5)	(0.7)	(16.3)	(1.2)
Cash acquisition of PPE reported on statement of cash flows	$ 20.2	$ 16.4	$ 50.9	$ 31.8

PPE cash expenditures in 2018 Q3 and 2018 YTD increased by 23.2% and 60.1%, respectively compared to the 2017 corresponding periods as a result of investments in facilities, increased part fabrication capacity from the Company's new Shepherdsville facility and as a result of insourcing and continuous improvement programs.

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 2018 Q3 LTM ("LTM" means "last twelve months" ended on the referenced date) was 14.8% as compared to 15.4% for the 2017 Q3 LTM. The decrease was primarily a result of material investments made in the Shepherdsville, KY parts fabrication facility and renovations and expansion of the Anniston, AL facility that are not expected to generate benefits until 2019.

(Unaudited, U.S. dollars in thousands)	**September 30, 2018**	**October 1, 2017**
ROIC LTM[1, 2]	14.8%	15.4%

(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 per share” above. Management believes that Adjusted EBITDA and ROIC are useful supplemental measures in evaluating performance of NFI.

(2) The effective tax rate ("ETR") used in the ROIC calculation for the LTM is 35% for the period October 2, 2017 to December 31, 2017 and, due to U.S. tax reform, the expected ETR for 2018 YTD is 29%. This resulted in an average ETR of 30.77%.

2018 Third Quarter Order Activity

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.

	Bids in Process (EUs)	**Bids Submitted (EUs)**	**Active EUs**	**Forecasted Industry Procurement over 5 Years (EUs)[1]**	**Total Bid Universe (EUs)**
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
2018 Q3	**955**	**2,323**	**3,278**	**18,084**	**21,362**

(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 made on a transactional basis. As a result, the Company does not have a Bid Universe for private sector 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

New orders (firm and options) during 2018 Q3 totaled 757 EUs. The new firm and option orders awarded to the Company for 2018 Q3 LTM were 5,426 EUs. The Company was also successful at converting 274 EUs of options during 2018 Q3 to firm orders, which contributed to the 1,458 EUs of options converted to firm orders in 2018 Q3 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 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
2018 Q3	**757**	**5,426**	**274**	**1,458**

Options

In 2018 Q3, 288 option EUs expired, compared to 97 option EUs that expired during the 2018 Q2.

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[1]	2019	2020	2021	2022	2023	Total
A) Options Expired (EUs)	965	504	550	331	740						3,090
B) Options Exercised (EUs)	1,149	1,339	2,064	1,404	1,220						7,176
C) Current Options by year of expiry (EUs)					11	131	1,243	1,824	2,396	912	6,517
D) Conversion rate % = B / (A+B)	**54%**	**73%**	**79%**	**81%**	**62%**						

[1] 2018 year-to-date amounts

The Company's conversion rate is lower in 2018, primarily driven by three customers which no longer required the contracted size and propulsion configurations or which were unable to assign options to other transit agencies due to revised Federal Transit Administration ("FTA") guidelines.

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. The Company 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.

The Company's 2018 Q3 LTM Book-to-Bill ratio (defined as new firm and option orders divided by new transit bus, medium-duty, cutaways and coach deliveries) was 128%. The Company’s LTM Book-to-Bill ratio has exceeded 100% for the last eighteen 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, 249 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.

Backlog

The Company's total backlog consists of transit buses sold primarily to public customers. The majority of the backlog relates to New Flyer transit buses for public clients with some contribution from MCI and ARBOC. Options for ARBOC vehicles are held by dealers, rather than the operator, and are not included as an option in the NFI backlog. Transit buses and motor coaches incorporating clean propulsion systems, including compressed natural gas ("CNG"), diesel-electric hybrid, and ZEBs, which consist of trolley-electric, fuel cell-electric, and battery-electric buses represent approximately 43.0% of the total backlog. ZEBs represent approximately 4.3% of total backlog.

	13-weeks ended September 30, 2018			13-weeks ended July 1, 2018			52-Weeks Ended December 31, 2017		
	Firm Orders	Options	Total	Firm Orders	Options	Total	Firm orders	Options	Total
Beginning of period	3,779	7,906	11,685	3,997	7,551	11,548	3,442	6,745	10,187
New orders	409	348	757	456	957	1,413	2,859	2,961	5,820
Acquired backlog(1)	—	—	—	—	—	—	315	—	315
Options exercised	274	(274)	0	505	(505)	0	1,404	(1,404)	0
Shipments(2)	(1,035)	—	(1,035)	(1,159)	—	(1,159)	(3,828)	—	(3,828)
Cancelled/expired	(4)	(293)	(297)	(20)	(97)	(117)	(6)	(331)	(337)
End of period	**3,423**	**7,687**	**11,110**	**3,779**	**7,906**	**11,685**	**4,186**	**7,971**	**12,157**
Consisting of:									
Heavy-duty transit buses	2,806	6,678	9,484	3,092	6,860	9,952	3,542	6,622	10,164
Motor coaches	444	1,009	1,453	484	1,046	1,530	322	1,349	1,671
Cutaway and medium-duty buses	173	—	173	203	—	203	322	—	322
Total Backlog	3,423	7,687	11,110	3,779	7,906	11,685	4,186	7,971	12,157

(1) On December 1, 2017 the Company acquired ARBOC and its related backlog.
(2) Shipments do not include delivery of pre-owned coaches as these coaches are not included in the backlog.

At the end of 2018 Q3, the Company's total backlog (firm and options) of 11,110 EUs (valued at $5.51 billion) is 4.9% lower than the 11,685 EUs (valued at $5.75 billion) at the end of 2018 Q2. The summary of the values is provided below.

	September 30, 2018		July 1, 2018		December 31, 2017	
		Equivalent Units		Equivalent Units		Equivalent Units
Firm orders – USA	$ 1,554,793	2,976	$ 1,679,647	3,224	1,886,958	3,713
Firm orders - Canada	226,472	447	246,429	555	212,276	473
Total firm orders	$ 1,781,265	3,423	$ 1,926,076	3,779	2,099,234	4,186
Options – USA	3,596,884	7,377	3,759,793	7,652	3,772,651	7,637
Options – Canada	131,452	310	110,762	254	147,584	334
Total options	3,728,336	7,687	3,870,555	7,906	3,920,235	7,971
Total backlog	**$ 5,509,601**	**11,110**	**$ 5,796,631**	**11,685**	**6,019,469**	**12,157**

Parts order activity during 2018 Q3

Gross orders received by the Company's aftermarket business decreased by 10.3% in 2018 Q3 compared to 2018 Q2 and by 8.3% compared to 2017 Q3. For 2018 Q3, ARBOC aftermarket parts orders were not material and have not been included in these figures.

Outlook

- Management remains focused on maintaining and growing NFI's leading market positions in the heavy-duty transit bus, motor coach and low-floor cutaway markets and aftermarket parts distribution through enhanced competitiveness and new product offerings.

- Aging fleets, healthy economic conditions, defined U.S. federal funding and active or anticipated procurements support management's expectation that transit bus procurement activity throughout the U.S. and Canada will remain healthy.

- Management continues to anticipate stable private sector demand for motor coaches through 2018. There has been some recent downward pressure on motor coach margins, but MCI remains focused on developing and expanding its product portfolio to enhance its competitiveness with two new vehicles targeting 2019 deliveries.
    - MCI's new D45 CRT LE motor coach, with its revolutionary improvements to support people with physical disabilities, is now eligible for FTA funding following its successful completion of the FTA's Altoona bus testing program ("Altoona Test"). The Altoona Test is named for the Altoona, PA testing center, where new bus models are rigorously tested for reliability in order to be eligible for U.S. federally funded public transit system procurements.
    - The new, smaller, more agile MCI 35' motor coach (the J3500).
    - MCI is also completing initial testing on its innovative new battery-electric coach, the first deliveries of which are expected in early 2020.
- Management expects ARBOC to be a beneficiary of changing population demographics that are anticipated to increase the demand for low-floor cutaway and medium-duty buses, including its new Spirit of Equess (the "Equess") offering. The Equess has completed its Altoona Test and management expects the final report to be issued in 2018 Q4.
- ZEBs remains an area of growing focus and, while they currently account for only 1% of the North American installed fleet, management expects the demand to grow over time. New Flyer's Xcelsior Charge and other ZEB propulsion platforms are expected to benefit from this demand.
    - In 2018 Q2, New Flyer received an order for up to 40 electric buses from the Toronto Transit Commission ("TTC"). This was the TTC's first transit bus of order to New Flyer since 1999.
    - During 2018 Q3, New Flyer received the largest ever battery electric bus contract in Canadian history from the Société de transport de Montréal and the Société de transport de Laval.
    - In October, New Flyer's 60-foot Xcelsior became the first and only 60-foot battery-electric transit bus to successfully complete the Altoona Test and now qualifies for FTA funding.
- NFI complies with the Buy America requirements of U.S. public customers which mandate 65% U.S. material content and has plans in place to achieve the increased requirement of 70% U.S. content starting October 2019.
    - One significant initiative to meet the increased U.S. content requirements is the opening of NFI's new Shepherdsville, KY parts fabrication facility, which represents NFI's largest insourcing project to date. This 315,000 sq. ft. facility is currently installing and commissioning equipment and management expects it will reach full production run-rate by the second quarter of 2019.
    - Another major insourcing initiative during 2018 YTD was the previously announced renovation and expansion of NFI's Anniston, Alabama facilities, which includes additional fabrication equipment, a streamlined welding process and an increased operational footprint. This project is expected to generate cost savings in 2019 and beyond.
    - NFI's acquired FRP, operated by Carfair, have provided an overall positive impact on NFI's operating results and security of supply. Carfair's Wausaukee, Wisconsin facility, acquired on September 25, 2017 in a bargain purchase, has been in a loss position during 2018 YTD as it continues its transition and integration into Carfair. Management anticipates this facility to be profitable in 2019.
- Daimler's previously announced decision to terminate the DRA resulted in MCI incurring additional costs 2018 YTD. Management expects the impact of these costs to continue in 2018 Q4, but are expected to significantly reduce in 2019.
- Aftermarket surveys and discussions with large customers continue to indicate a number of adverse market effects including: customers' inventory reduction strategies, budget constraints, a decline in the installed base of certain NFI acquired brands no longer in production (such as Orion® and NABI®), increased competition from truck dealers and distributors, and the improved quality of the Xcelsior and MCI vehicles compared to prior models. To help counter these negative impacts on aftermarket sales volumes management has placed additional focus on winning vendor managed inventory ("VMI") programs. During Fiscal 2018, NFI secured six VMI programs that are expected to provide benefits to the aftermarket business in 2019 and beyond.
- Based on the Company's master production schedule combined with current backlog and orders anticipated to be awarded by customers under new procurements Fiscal 2018 delivery guidance remains unchanged at 4,390 EUs, an increase of 562 EUs over fiscal 2017. 2018 Q4 deliveries are expected to represent 27% of full year deliveries and be an increase of 135 EUs over 2017 Q4. Fiscal 2018 deliveries are expected to be comprised of the following vehicle types:

Heavy Duty Transit	Motor Coach	Cutaway and Medium-Duty	Total
2,810 EUs	1,070 EUs	510 EUs	4,390 EUs

- PPE expenditures for Fiscal 2018 remain in the range of approximately $63 million to $73 million.
- On October 25, 2018 the Company entered into the Credit Facility with a total borrowing limit of $1.0 billion, including a $100 million letter of credit facility. The Credit Facility is unsecured, has a 5-year term and will mature on October 25, 2023. In addition, the Credit Facility provides an accordion feature which allows the Company to obtain additional funding of up to $250 million, subject to customary conditions. This new Credit Facility replaces NFI's prior secured credit facility (the "Prior Credit Agreement"), which had a total borrowing limit of $825 million. Loans under the Credit Facility bear interest at a rate equal to LIBOR or a U.S. base rate for loans denominated in U.S. dollars and a Canadian prime rate or bankers' acceptance rate for loans denominated in Canadian dollars, plus an applicable margin to those rates.

  There are certain financial covenants under the Credit Facility that must be maintained. Specifically, the Company must maintain an interest coverage ratio greater than 3.0 to 1 and a total leverage ratio ("TLR") of less than 3.75 to 1, which increases to 4.25 for one year following a material acquisition.

  Management expects the Credit Facility will provide NFI with significant financial flexibility to pursue numerous strategic initiatives to grow and diversity its business. These initiatives may include acquisitions, partnerships and investments, with the potential to increase product or geographic diversity, further insource fabrication capabilities and contribute to future growth.

United States-Mexico-Canada Agreement ("USMCA")

On September 30, 2018 the federal governments of the United States, Mexico and Canada announced that the USMCA had been reached in principle to replace the previous North American Free Trade Agreement ("NAFTA"). Management does not anticipate any material impact to the Company's business arising from any of the changes in the USMCA from NAFTA to NFI's business, if the USMCA is ratified as proposed. NFI manufactured products exceed the regional value content requirements under USMCA, which will allow them to move across the Canada - U.S. border duty-free. Management believes the new agreement to be a positive outcome that will continue to support the NFI integrated production operations.

Commodity Price Increases, Tariffs and Surtaxes

There has been considerable interest regarding the impact to the Company from rising commodity prices, as well as tariffs and surtaxes on U.S. and Canadian steel imports, and the impact of U.S. and Canadian tariffs on Chinese origin production inputs.

The previously announced U.S. federal tariffs on Canadian steel and aluminum imported into the U.S. and the Government of Canada's surtaxes on certain U.S. steel and aluminum imported into Canada remain in effect. The majority of the aluminum and steel used at NFI's manufacturing facilities are from U.S. sources, primarily to meet Buy America requirements of U.S. public customers. Canadian surtaxes on the importation of U.S. aluminum and steel used in manufacturing products at NFI'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 ("DRP").

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 NFI's total material costs. Management currently anticipates an immaterial impact for the remainder of 2018 from current market increases in aluminum and steel pricing because 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.

In order to satisfy Buy America requirements, NFI primarily sources material and components from U.S. suppliers with minimal direct purchases from Chinese suppliers and therefore has limited direct exposure to U.S. tariffs on goods originating in China. Management continues to monitor the indirect impact of such tariffs on component and sub-component pricing from suppliers and anticipates that any future cost increases should be recoverable through new contract pricing or through PPI pricing mechanisms.

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 13).

Fiscal Period	Quarter	Revenue	Earnings from Operations	Net earnings	Adjusted EBITDA[1]	Earnings per Share	Adjusted Earnings per Share
2018	Q3	605,342	53,469	$ 37,031	$ 70,245	$ 0.59	$ 0.57
	Q2	673,025	72,063	49,740	91,400	0.81	0.83
	Q1	578,634	51,753	30,356	73,841	0.48	0.57
	Total	**$ 1,857,001**	**$ 177,285**	**$ 117,127**	**$ 235,486**	**$ 1.87**	**$ 1.97**
2017	Q4	654,560	71,495	76,118	90,488	1.21	1.25
	Q3	541,721	55,141	34,577	70,998	0.55	0.55
	Q2	613,430	70,363	42,769	85,090	0.69	0.68
	Q1	572,147	59,203	37,904	71,450	0.61	0.59
	Total	**$ 2,381,858**	**$ 256,202**	**$ 191,368**	**$ 318,026**	**$ 3.06**	**$ 3.07**
2016	Q4	$ 622,530	$ 61,244	$ 41,558	$ 76,824	$ 0.68	$ 0.70
	Q3	511,483	46,633	26,002	63,788	0.43	0.36
	Q2	586,937	64,789	34,746	80,331	0.58	0.61
	Q1	553,226	43,882	22,588	68,178	0.40	0.48
	Total	**$ 2,274,176**	**$ 216,548**	**$ 124,894**	**$ 289,121**	**$ 2.10**	**$ 2.15**

								Ending inventory comprised of:	
Fiscal Period	Quarter	New inventory, Beginning (EUs)	New inventory transferred to property, plant and equipment (EUs)	New ARBOC inventory acquired (EUs)	New Line Entry (EUs)	Deliveries (EUs)	New inventory, Ending(EUs)	Work in process (EUs)	Finished goods (EUs)[2]
2018	Q3	590	(22)	—	1,038	1,035	571	505	66
	Q2	633	(6)	—	1,122	1,159	590	496	94
	Q1	489	(3)	—	1,140	993	633	456	177
	Total	**489**	**(31)**	—	**3,300**	**3,187**	**571**	**505**	**66**
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	Q3	355	19	78	115	337
	Q2	379	(26)	104	102	355
	Q1	343	21	161	146	379
	Total	**343**	**(5)**	**265**	**248**	**337**
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**

(1) Adjusted EBITDA is not a recognized earnings measure and does not have standardized meanings prescribed by IFRS. Therefore, Adjusted EBITDA 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 per share" 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.

* During 2018 Q3 and 2018 YTD, pre-owned coach revenue was $15.5 million and $35.3 million, respectively.

COMPARISON OF THIRD QUARTER AND TRAILING TWELVE MONTHS RESULTS

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

	13-Weeks Ended September 30, 2018	13-Weeks Ended October 1, 2017	39-Weeks Ended September 30, 2018	39-Weeks Ended October 1, 2017	52-Weeks Ended September 30, 2018	52-Weeks Ended October 1, 2017
Statement of Earnings Data		(restated*)		(restated*)	(restated*)	(restated*)
Revenue						
Canada	$ 66,354	$ 33,512	$ 164,518	$ 129,976	$ 189,146	$ 164,839
U.S.	445,824	420,571	1,400,829	1,319,529	1,939,323	1,816,146
Manufacturing operations	512,178	454,083	1,565,347	1,449,505	2,128,469	1,980,985
Canada	16,484	17,816	55,697	56,862	74,366	75,647
U.S.	76,680	69,822	235,957	220,931	308,726	293,196
Aftermarket operations	93,164	87,638	291,654	277,793	383,092	368,843
Total revenue	$ 605,342	$ 541,721	$ 1,857,001	$ 1,727,298	$ 2,511,561	$ 2,349,828
Earnings from operations	$ 53,469	$ 55,141	$ 177,285	$ 184,707	$ 248,780	$ 245,951
Earnings before interest and income taxes	55,874	57,083	176,940	189,314	247,214	249,184
Net earnings	37,031	34,577	117,127	115,250	193,245	156,808
Adjusted EBITDA(2)						
Transit bus and coach manufacturing operations including realized foreign exchange losses/gains	53,006	52,591	179,170	165,613	251,791	223,307
Aftermarket operations	17,239	18,407	56,316	61,925	74,183	81,055
Total Adjusted EBITDA(2)	$ 70,245	$ 70,998	$ 235,486	$ 227,538	$ 325,974	$ 304,362
Other Data (unaudited)						
Total Deliveries (New and Pre-owned Coaches)						
Canada	50	68	352	282	404	364
U.S.	985	809	2,835	2,478	3,851	3,389
New deliveries	1,035	877	3,187	2,760	4,255	3,753
Pre-owned deliveries	115	89	281	264	427	365
Total deliveries (EUs)	1,150	966	3,468	3,024	4,682	4,118
Capital expenditures	$ 25,162	$ 17,075	$ 67,207	$ 32,963	$ 91,629	$ 46,249
New options awarded	$ 143,158	$ 518,132	$ 497,942	$ 618,206	$ 1,246,228	$ 854,808
New firm orders awarded	$ 194,210	$ 276,181	$ 826,262	$ 992,025	$ 1,260,259	$ 1,467,185
Exercised options	144,381	406,841	639,063	695,819	756,119	1,044,988
Total firm orders	$ 338,591	$ 683,022	$ 1,465,325	$ 1,687,844	$ 2,016,378	$ 2,512,173

(Footnotes on page 17)

* Organizational changes to better align business functions within operating segments were made effective January 2, 2017. These organizational change were 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. The restatements did have an impact on consolidated amounts.

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, Adjusted Net Earnings and Adjusted earnings per Share" 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 September 30, 2018	13-Weeks Ended October 1, 2017	39-Weeks Ended September 30, 2018	39-Weeks Ended October 1, 2017	52-Weeks Ended September 30, 2018	52-Weeks Ended October 1, 2017
Net earnings	$ 37,031	$ 34,577	$ 117,127	$ 115,250	$ 193,245	$ 156,808
Addback[1]						
Income taxes	11,905	17,569	42,778	59,295	33,737	81,195
Interest expense	6,938	4,937	17,036	14,769	20,233	11,181
Amortization	16,106	14,239	49,779	41,595	65,786	56,736
Loss (gain) on disposition of property, plant and equipment	244	22	275	(195)	303	(195)
Fair value adjustment for total return swap[7]	(541)	798	918	(3,784)	(17)	(4,380)
Unrealized foreign exchange loss (gain) on non-current monetary items and forward foreign exchange contracts	(2,649)	(479)	70	(2,927)	937	(1,553)
Costs associated with assessing strategic and corporate initiatives[4]	—	420	137	881	2,949	881
Past service costs[9]	—	—	6,482	—	6,482	—
Non-recurring costs (recoveries) relating to business acquisition[5]	—	29	—	90	(525)	406
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue[6]	—	—	266	—	532	19
Proportion of the total return swap realized[8]	732	98	(757)	2,943	264	3,372
Equity settled stock-based compensation	479	273	1,375	1,106	1,722	1,377
Gain on bargain purchase of subsidiary company	—	(1,485)	—	(1,485)	326	(1,485)
Adjusted EBITDA[2]	$ 70,245	$ 70,998	$ 235,486	$ 227,538	$ 325,974	$ 304,362

(Footnotes on pages 17)

RECONCILIATION OF NET EARNINGS TO ADJUSTED NET EARNINGS

In 2018 Q3, 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 September 30, 2018	13-Weeks Ended October 1, 2017	39-Weeks Ended September 30, 2018	39-Weeks Ended October 1, 2017	52-Weeks Ended September 30, 2018	52-Weeks Ended October 1, 2017
Net earnings	$ 37,031	$ 34,577	$ 117,127	$ 115,250	$ 193,245	$ 156,808
Adjustments, net of tax (10)						
Fair value adjustment of total return swap (7)	(384)	529	652	(2,499)	(12)	(2,886)
Unrealized foreign exchange (gain) loss	(1,881)	(318)	50	(1,933)	653	(1,023)
Portion of the total return swap realized (8)	519	65	(537)	1,943	184	2,222
Costs associated with assessing strategic and corporate initiatives (4)	—	279	97	582	2,054	580
Non recurring costs (recoveries) relating to business acquisition (6)	—	19	—	59	(366)	267
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue (5)	—	—	189	—	371	—
Equity settled stock-based compensation	340	181	976	730	1,199	907
Gain on disposition of property, plant and equipment	173	15	195	(129)	211	(128)
Gain on bargain purchase option	—	(985)	—	(981)	—	(981)
Past service costs (9)	—	—	4,602	—	4,515	—
Adjusted Net Earnings	35,798	34,362	123,351	113,022	202,054	155,766
Earnings per Share (basic)	$ 0.59	$ 0.55	$ 1.87	$ 1.85	$ 3.09	$ 2.53
Earnings per Share (fully diluted)	$ 0.59	$ 0.54	$ 1.86	$ 1.83	$ 3.06	$ 2.50
Adjusted Earnings per Share (basic)	$ 0.57	$ 0.55	$ 1.97	$ 1.81	$ 3.23	$ 2.51
Adjusted Earnings per Share (fully diluted)	$ 0.57	$ 0.54	$ 1.96	$ 1.80	$ 3.21	$ 2.49

(Footnotes on pages 17)

RECONCILIATION OF CASH FLOW TO ADJUSTED EBITDA

(Unaudited, U.S. dollars in thousands)	13-Weeks Ended September 30, 2018	13-Weeks Ended October 1, 2017	39 Weeks Ended September 30, 2018	39-Weeks Ended October 1, 2017	52-Weeks Ended September 30, 2018	52-Weeks Ended October 1, 2017
Net cash generated from operating activities	$ 42,225	$ 17,156	$ 107,804	$ 164,687	$ 115,176	$ 199,296
Addback[1]						
Changes in non-cash working capital items	2,183	25,917	32,352	(35,667)	75,080	(12,084)
Defined benefit funding	5,911	942	21,633	6,451	26,658	8,082
Defined benefit expense	(1,378)	(1,289)	(10,578)	(3,812)	(11,916)	(3,725)
Interest paid	5,582	4,549	16,735	14,082	21,408	19,168
Equity settled stock-based compensation	(479)	(273)	(1,375)	(1,106)	(1,722)	(1,377)
Gain received on the total return swap settlement	—	—	—	—	—	(509)
Foreign exchange gain (loss) on cash held in foreign currency	210	172	483	512	431	317
Income taxes paid [3]	14,780	23,004	60,928	77,371	89,434	89,139
Costs associated with assessing strategic and corporate initiatives[4]	—	420	137	881	2,949	881
Past service costs[9]	—	—	6,482	—	6,482	—
Non-recurring costs relating to business acquisition[5]	—	29	—	90	(525)	406
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue [6]	—	—	266	—	532	19
Proportion of the total return swap [8]	732	98	(756)	2,943	265	3,372
Equity settled stock -based compensation	479	273	1,375	1,106	1,722	1,377
Adjusted EBITDA[2]	$ 70,245	$ 70,998	$ 235,486	$ 227,538	$ 325,974	$ 304,362

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, Free Cash Flow, Adjusted Net Earnings and Adjusted Net Earnings per Share" 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 net earnings in the first quarter of 2018.
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 New Flyer'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.
10. The expected ETR in each respective period is used to calculate adjustments, net of tax

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 the Company'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, Free Cash Flow, Adjusted Net Earnings and Adjusted Earnings per Share".

(Unaudited, U.S. dollars in thousands, except per Share figures)	13-Weeks Ended September 30, 2018	13-Weeks Ended October 1, 2017	39-Weeks Ended September 30, 2018	39-Weeks Ended October 1, 2017	52-Weeks Ended September 30, 2018	52-Weeks Ended October 1, 2017
Net cash generated from operating activities	$ 42,225	$ 17,156	$ 107,804	$ 164,687	$ 115,176	$ 199,296
Changes in non-cash working capital items(3)	2,183	25,917	32,352	(35,667)	75,080	(12,084)
Interest paid(3)	5,582	4,549	16,735	14,082	21,408	19,168
Interest expense(3)	(5,916)	(4,681)	(17,273)	(14,177)	(22,381)	(19,229)
Income taxes paid(3)	14,780	23,004	60,928	77,371	89,434	89,139
Current income tax expense(3)	(13,998)	(28,275)	(46,768)	(77,157)	(50,727)	(104,102)
Principal portion of finance lease payments	(1,523)	(1,034)	(3,578)	(3,046)	(4,647)	(3,945)
Cash capital expenditures	(20,206)	(16,357)	(50,847)	(31,761)	(71,899)	(42,112)
Proceeds from disposition of property, plant and equipment	160	141	225	508	243	508
Costs associated with assessing strategic and corporate initiatives(7)	—	420	137	881	2,949	881
Non-recurring transitional costs relating to business acquisition(8)	—	29	—	90	(525)	406
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue (9)	—	—	266	—	532	19
Defined benefit funding(4)	5,911	942	21,633	6,451	26,658	8,082
Defined benefit expense(4)	(1,378)	(1,289)	(10,578)	(3,812)	(11,916)	(3,725)
Past service costs(11)	—	—	6,482	—	6,482	—
Gain received on total return swap settlement	—	—	—	—	—	(509)
Proportion of the total return swap(10)	732	98	(756)	2,943	265	3,372
Foreign exchange gain (loss) on cash held in foreign currency(5)	210	172	483	512	431	317
Free Cash Flow (US$)(1)	28,762	20,792	117,245	101,905	176,563	135,482
U.S. exchange rate(2)	1.2945	1.2480	1.3018	1.3003	1.2858	1.3108
Free Cash Flow (C$)(1)	**37,232**	**25,948**	**152,630**	**132,507**	**227,046**	**177,590**
Free Cash Flow per Share (C$)(6)	0.5923	0.4125	2.4429	2.1257	3.6272	2.8630
Declared dividends on Shares (C$)	**23,395**	**20,452**	**67,454**	**55,623**	**87,912**	**70,498**
Declared dividends per Share (C$)(6)	$ 0.3722	$ 0.3250	$ 1.0796	$ 0.8839	$ 1.4045	$ 1.1203

(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$) are determined by dividing Free Cash Flow by the total number of all issued and outstanding Shares using the weighted average over the period. The weighted average number of Shares outstanding for 2018 Q3 was 62,860,422 and 62,481,052 for 2018 YTD and 62,594,831 for the last twelve months ended September 30, 2018. The weighted average number of Shares outstanding for 2017 Q3 was 62,907,984 and 62,377,488 for 2017 YTD and 62,031,029 for the last twelve months ended September 30, 2017. Per Share calculations for declared dividends (C$) are determined by dividing the amount of declared dividends by the number of outstanding Shares at the respective period end date.

(7) Normalized to exclude non-recurring expenses related to the costs of assessing strategic and corporate initiatives.

(8) Normalized to exclude non-recurring expenses associated with transitional costs related to acquired subsidiary companies.

(9) 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 New Flyer'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.

<u>Maintaining Financial Flexibility</u>

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.

The September 30, 2018 liquidity position of $192.2 million was comprised of available cash of $1.6 million and $190.6 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 September 30, 2018, there were $138.5 million of direct borrowings and $13.9 million of outstanding letters of credit related to the $343.0 million Revolver. The liquidity position of the Company increased by $175 as a result of the new Credit Facility entered into on October 25, 2018.

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 were certain financial covenants under the Prior Credit Agreement that had to be maintained. These financial covenants included an interest coverage ratio and a total leverage ratio. The total leverage ratio reduced to less than 3.50 beginning January 1, 2018. At September 30, 2018, the Company was in compliance with the ratios. The results of the financial covenant tests under the Prior Credit Agreement as of such date are as follows:

	September 30, 2018	December 31, 2017
Total Leverage Ratio (must be less than 3.50)	1.97	1.84
Interest Coverage Ratio (must be greater than 3.00)	14.66	17.15

The leverage ratio was increased to 3.75 under the New Credit Facility and increases to 4.25 for one year following a material acquisition.

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$37.2 million in 2018 Q3 compared to declared dividends of C$23.4 million during this period. For 2018 Q3 LTM, Free Cash Flow was C$227.0 million compared to declared dividends of C$87.9 million. In comparison to 2017 Q3 LTM, Free Cash Flow measured in Canadian dollars decreased by 27.8% while dividends increased by 24.7%. This resulted in an annual payout ratio of 38.7% and 39.7% in 2018 Q3 LTM and 2017 Q3 LTM, respectively.

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.

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 Q3, the Company repurchased 514,000 Shares, of which 33,800 Shares were settled and canceled after September, 2018, at an average price of C$51.07 per Share for a total repurchase cost of $21.4 million during 2018 Q3 and $29.6 during 2018 YTD and $1.7 million settled after September 30, 2018.

Total Capital Distributions to Shareholders (U.S. dollars in millions)	**2018 Q3**	**2017 Q3**	**2018 YTD**	**2017 YTD**
Dividends	$ 17.9	$ 15.7	$ 50.1	$ 37.8
NCIB Share repurchase	21.4	—	29.6	—
Total	$ 39.3	$ 15.7	$ 79.7	$ 37.8

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. These organizational changes were 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.

(Unaudited 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.

(Unaudited U.S. dollars in thousands)	2018 Q3 (13-Weeks)	2017 Q3 (13-Weeks) (restated)	2018 YTD (39-weeks)	2017 YTD (39-weeks)
Manufacturing Revenue	512,178	454,083	1,565,347	1,449,505
Aftermarket Revenue	93,164	87,638	291,654	277,793
Total Revenue	$ 605,342	$ 541,721	$ 1,857,001	$ 1,727,298
Earnings from Operations	$ 53,469	$ 55,141	$ 177,285	$ 184,707
Earnings before interest and income taxes	55,874	57,083	176,940	189,314
Earnings before income tax expense	48,936	52,149	159,906	174,545
Net earnings for the period	37,031	34,577	117,127	115,250

Revenue

Manufacturing revenue for 2018 Q3 increased by $58 million, or 12.8% compared to 2017 Q3. The increase is primarily driven by a 16.9% volume increase in new transit bus, coach and cutaway deliveries. The increase was partially offset by a 5.8% decrease in average selling prices for transit bus, coach and cutaway vehicles.

Manufacturing revenue for 2018 YTD increased by $115.9 million compared to 2017 YTD, an increase of 8.0%. Similar to the 2018 Q3 increase in manufacturing revenue, it was primarily driven by volume increases in transit bus, coach and cutaway, plus positive contribution from the inclusion of the FRP component operations partially offset by lower average EU selling prices.

Average EU selling prices for both 2018 Q3 and 2018 YTD decreased compared to the same periods in 2017, driven by sales mix and margin pressure in the coach business partially offset by positive sales mix and margin related to the transit business. The average EU selling price now includes ARBOC's units, which have a substantially lower selling price than the average heavy-duty transit bus or motor coach.

Revenue from aftermarket operations in 2018 Q3 increased by $5.6 million, or 6.4% compared to 2017 Q3 and 2018 YTD increased by $13.8 million, or 5.0%, compared to the same period in 2017. In both 2018 Q3 and 2018 YTD, the increase was driven by higher volumes offset by the negative impact of the DRA. The termination of the DRA with respect to sales of Daimler's Setra motor coaches and spare parts in North America took effect July 1, 2018.

Cost of sales

(Unaudited U.S. dollars in thousands)	2018 Q3 (13-Weeks)	2017 Q3 (13-Weeks) (restated)	2018 YTD (39-weeks)	2017 YTD (39-weeks)
Total Cost of Sales	$ 500,856	$ 440,571	$ 1,521,058	$ 1,402,524

The consolidated cost of sales for 2018 Q3 and 2018 YTD increased by $60.3 million or 13.7% and $118.6 million or 8.5% compared to 2017 Q3 and 2017 YTD, respectively. The increase primarily relates to increased volumes, sales mix, higher depreciation related to capital initiatives and the impact of the addition of ARBOC operations. The cost of sales related to the Shepherdsville, KY location were $0.8 million and $3.0 million during 2018 Q3 and 2018 YTD.

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

The consolidated SG&A for 2018 Q3 of $48.4 million (8.0% of consolidated revenue) increased by 2.2% compared with $47.3 million (8.7% of consolidated revenue) in 2017 Q3. The consolidated SG&A for 2018 YTD of $155.2 million (8.4% of consolidated revenue) increased 10.5% compared to $140.4 million (8.1% of consolidated 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 New Flyer collective bargaining unit in Winnipeg on April 8, 2018, as well as the inclusion of both ARBOC and Carfair costs for the FRP components operations.

Realized foreign exchange loss/gain

During 2018 Q3, the Company recorded a realized foreign exchange loss of $2.6 million compared to a gain of $1.3 million in 2017 Q3. The 2018 YTD realized foreign exchange loss is $3.4 million, compared to a gain of $0.3 during 2017 YTD. The Company uses foreign exchange forward contracts to buy Canadian dollars with U.S. dollars. The purchase of Canadian dollars using foreign exchange forward contracts at unfavourable forward rates compared to spot rates when executed were the primary reason for the losses.

Earnings from operations

Consolidated earnings from operations for 2018 Q3 in the amount of $53.5 million (8.8% of consolidated revenue) decreased by 3.1% compared to earnings from operations in 2017 Q3 of $55.1 million (10.2% of consolidated revenue). 2018 YTD Consolidated earnings from operations were $177.3 million (9.5% of revenue) which represents a 4.0% decrease compared to $184.7 million (10.7% of consolidated revenue) in 2017 Q3.

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 Q3	2017 Q3	2018 YTD	2017 YTD
Unrealized (gain) loss on forward foreign exchanges contracts	$ (2,654)	$ (925)	$ 632	$ (3,646)
Unrealized (gain) loss on other long-term monetary assets/liabilities	5	446	(562)	719
	$ (2,649)	$ (479)	$ 70	$ (2,927)

At September 30, 2018, the Company had $70 million of foreign exchange forward contracts to buy Canadian dollars with U.S. dollars at an average agreed exchange rate of $0.76. These foreign exchange contracts range in expiry dates from September 2018 to January 2019. The related asset of $0.8 million (December 31, 2017: $1.4 million) is recorded on the unaudited interim consolidated statements of financial position as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the unaudited interim consolidated statements of net earnings and total comprehensive income.

Earnings before interest and income taxes ("EBIT")

In 2018 Q3, the Company recorded EBIT of $48.9 million compared to EBIT of $52.1 million in 2017 Q3. Similarly, the Company recorded 2018 YTD EBIT of $159.9 million compared to EBIT of $174.5 million in 2017 YTD. EBIT has been impacted by non-cash and non-recurring items as follows:

(Unaudited, U.S. dollars in thousands)	2018 Q3	2017 Q3	2018 YTD	2017 YTD
Non-cash and non-recurring charges:				
Costs associated with assessing strategic and corporate initiatives	$ —	$ 420	$ 137	$ 881
Unrealized foreign exchange (gain) loss	(2,649)	(479)	70	(2,927)
Equity settled stock-based compensation	479	273	1,375	1,106
Loss (gain) on disposition of property, plant and equipment	244	22	275	(195)
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue	—	—	266	—
Fair value adjustment of total return swap	(541)	798	918	(3,784)
Past service costs	—	—	6,482	—
Non-recurring costs related to business acquisition		29		90
Amortization	16,106	14,239	49,779	41,595
Total non-cash and non-recurring charges:	$ 13,639	$ 15,302	$ 59,302	$ 36,766

Interest and finance costs

The interest and finance costs for 2018 Q3 of $6.9 million increased 40.6% when compared to $4.9 million in 2017 Q3. 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 Prior Credit Agreement, offset by an increase in interest caused by the increased level of borrowing on the Revolver to facilitate the acquisition of ARBOC and working capital requirements. Similarly, the interest and finance costs for 2018 YTD of $17.0 million increased 15.3% compared to $14.8 million in 2017 YTD.

Earnings before income taxes ("EBT")

EBT for 2018 Q3 of $48.9 million decreased compared to EBT of $52.1 million in 2017 Q3 and the EBT for 2018 YTD of $159.9 million decreased compared to EBT of $174.5 million in 2017 YTD. The primary drivers of this change are the same at EBIT discussed above.

Income tax expense

The income tax expense for 2018 Q3 was $11.9 million, consisting of $14.0 million of current income tax expense offset by $2.1 million of deferred income tax expense recovered. In comparison, the income tax expense for 2017 Q3 was $17.6 million, consisting of $28.3 million of current income tax expense and $10.7 million of deferred income tax recovery. The income tax expense for 2018 YTD was $42.8 million, consisting of $46.8 million of current income tax expense offset by $4.0 million of deferred income tax expense recovered. In comparison, the income tax expense for 2017 YTD was $59.3 million, consisting of $77.2 million of current income tax expense and $17.9 million of deferred income tax recovery.

Current income tax expense recorded in 2018 YTD decreased by $30.4 million primarily due to U.S.Tax Reform in late 2017.

The ETR for 2018 Q3 of 24.3% decreased compared to the ETR of 33.7% in 2017 Q3. The ETR for 2018 YTD of 26.8% decreased compared to the ETR of 34.0% in 2017 YTD. The ETR decreased due to the recognition of a deferred tax asset in the quarter not previously recognized and U.S. Tax Reform.

Net earnings

The Company reported net earnings of $37.0 million in 2018 Q3, an increase of 6.9% compared to net earnings of $34.6 million in 2017 Q3 The increase in 2018 Q3 was primarily due higher volumes and lower taxes as a result of U.S. tax reform partially offset by increased finance costs and the previously mentioned impacts on Adjusted EBITDA. The 2018 YTD net earnings of $117.1 million, increased by 1.6% compared to net earnings of $115.2 million in 2017 YTD for the same reasons mentioned above.

Net earnings (Unaudited U.S. dollars in millions)	**2018 Q3**	**2017 Q3**	**2018 YTD**	**2017 YTD**
Earnings from operations	$ 53.5	$ 55.1	$ 177.3	$ 184.7
Non-cash gain (loss)	2.3	2.0	(0.4)	4.6
Interest expense	(6.9)	(4.9)	(17.0)	(14.8)
Income tax expense	(11.9)	(17.6)	(42.8)	(59.3)
Net earnings	$ 37.0	$ 34.6	$ 117.1	$ 115.2
Net earnings per Share (basic)	$ 0.59	$ 0.55	$ 1.87	$ 1.85
Net earnings per Share (fully diluted)	$ 0.59	$ 0.54	$ 1.86	$ 1.83

The Company's net earnings per Share in 2018 Q3 of $0.59 increased from net earnings per Share of $0.55 generated in 2017 Q3. The Company's net earnings per Share in 2018 YTD of $1.87 did not materially change from net earnings per Share of $1.85 generated in 2017 YTD.

Cash Flow

The cash flows of the Company are summarized as follows:

(Unaudited, U.S. dollars in thousands)	**2018 Q3**	**2017 Q3**	**2018 YTD**	**2017 YTD**
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	$ 64,770	$ 70,626	$ 217,819	$ 220,473
Interest paid	(5,582)	(4,549)	(16,735)	(14,082)
Income taxes paid	(14,780)	(23,004)	(60,928)	(77,371)
Net cash earnings	44,408	43,073	140,156	129,020
Cash flow (used in) generated from changes in working capital	(2,183)	(25,917)	(32,352)	35,667
Cash flow generated from operating activities	42,225	17,156	107,804	164,687
Cash flow used in financing activities	(36,321)	(13,803)	(46,075)	(116,095)
Cash flow used in investing activities	(20,046)	(20,187)	(50,640)	(46,737)

Cash flows from operating activities

The 2018 Q3 net operating cash inflow of $42.2 million is the result of $44.4 million of net cash earnings offset by an increase in non-cash working capital of $2.2 million. The 2017 Q3 net operating cash inflow of $17.2 million resulting from $43.1 million of net cash earnings and an increase in non-cash working capital of $25.9 million. The increase in non cash working capital in 2017 Q3 YTD is primarily a result of increased inventory levels in the coach business at January 1, 2017 as a result of the deferral of coach 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 Q3 primarily related to total draws against the Revolver and capital returned to shareholders through dividends and Shares repurchased under the NCIB.

Cash flow from investing activities

2018 Q3 investing activities are comparable to 2017 Q3. A net outflow of $20.0 million compared to a net cash outflow of $20.2 million in 2017 Q3. On a year-to-date basis the net outflow of $50.6 million increased by $3.9 million, primarily due to increased expenditures on for capital assets.

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 credit facility of the Prior Credit Agreement. 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 $8.9 million at 2018 Q3 (2017 Q3: $5.1 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. public sector customer payments - up to 80% of the capital cost of new transit buses, coaches or cutaways purchased by public transit agencies 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 its 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:

	September 30, 2018	December 31, 2017
Current, including holdbacks	$ 369,020	$ 361,805
Past due amounts but not impaired		
1 – 60 days	11,968	22,306
Greater than 60 days	5,149	2,878
Less: allowance for doubtful accounts	(795)	(522)
Total accounts receivables, net	$ 385,342	$ 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 September 30, 2018:

Unaudited, U.S. dollars in thousands	Total	2018	2019	2020	2021	2022	Post 2022
Senior secured credit facility(1)	$ 646,931	$ 5,429	$ 641,502	$ 0	$ —	$ —	$ —
Other long-term liabilities	1,053	0	1,053	—	—	—	—
Finance leases	28,779	2,186	8,354	6,753	7,226	2,205	2,057
Accrued benefit liability	3,706	2,855	536	315	—	—	—
Operating leases	89,772	3,286	12,649	11,528	11,592	10,793	39,924
	$ 770,241	$ 13,756	$ 664,094	$ 18,596	$ 18,818	$ 12,998	$ 41,981

(1) The senior secured credit facilities were repaid as a result of the new Credit Facility entered into on October 25, 2018 that matures in October 2023.

As at September 30, 2018, outstanding surety bonds guaranteed by the Company amounted to $412.4 million, representing an increase compared to $397.8 million at July 1, 2018. The estimated maturity dates of the surety bonds outstanding at September 30, 2018 range from September 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 Prior Credit Facility, the Company had established a letter of credit sub-facility of $55.0 million. As at September 30, 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. These letters of credit were rolled into the Credit Facility on October 25, 2018.

The Company does not have any off-balance sheet arrangement or any material capital asset commitments at September 30, 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	(522,298)	(9,631)	(80,121)	—	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	—	—	(1,086)	1,085	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	(1,163,396)	(20,999)	(446,679)	499,677		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	(185,860)	C$12.03	(347,185)	C$11.31
Balance at end of period	946,356	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 $232.0 thousand of director restricted Share units ("Director RSUs") in 2018 Q3. Of these Director RSUs issued, approximately $120.8 thousand were exercised and exchanged for 3,149 Shares.

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 fair value through profit or loss, 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. Management has determined that 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 Q3 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

Unaudited Interim Condensed Consolidated Financial Statements of

NFI GROUP INC.

(FORMERLY NEW FLYER INDUSTRIES INC.)

September 30, 2018

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NFI GROUP INC. (FORMERLY NEW FLYER INDUSTRIES INC.)

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET EARNINGS AND TOTAL COMPREHENSIVE INCOME
For the period ended September 30, 2018
(unaudited, in thousands of U.S. dollars except per share figures)

	13-Weeks Ended September 30, 2018	13-Weeks Ended October 1, 2017 (restated note 6)	39-Weeks Ended September 30, 2018	39-Weeks Ended October 1, 2017 (restated note 6)
Revenue (note 11)	$ 605,342	$ 541,721	$ 1,857,001	$ 1,727,298
Cost of sales (note 4)	500,855	440,571	1,521,058	1,402,524
Gross profit	104,487	101,150	335,943	324,774
Sales, general and administration costs and other operating expenses	48,361	47,323	155,224	140,371
Foreign exchange loss (gain)	2,657	(1,314)	3,434	(304)
Earnings from operations	53,469	55,141	177,285	184,707
Gain on bargain purchase of subsidiary company	—	(1,485)	—	(1,485)
Loss (gain) on disposition of property, plant and equipment	244	22	275	(195)
Unrealized foreign exchange loss (gain) on non-current monetary items	(2,649)	(479)	70	(2,927)
Earnings before interest and income taxes	55,874	57,083	176,940	189,314
Interest and finance costs				
Interest on long-term debt and convertible debentures	5,148	3,949	15,112	12,518
Accretion in carrying value of long-term debt and convertible debentures	404	387	1,198	1,204
Other interest and bank charges	768	732	2,161	1,659
Fair market value loss (gain) on interest rate swap	618	(131)	(1,436)	(612)
	6,938	4,937	17,035	14,769
Earnings before income tax expense	48,936	52,146	159,905	174,545
Income tax expense (note 5)				
Current income taxes	13,998	28,275	46,768	77,157
Deferred income taxes recovered	(2,093)	(10,706)	(3,990)	(17,862)
	11,905	17,569	42,778	59,295
Net earnings for the period	$ 37,031	$ 34,577	$ 117,127	$ 115,250
Other comprehensive income (loss)				
Actuarial income (loss) on defined benefit pension plan - this item will not be reclassified subsequently to profit or loss	2,291	1,112	7,744	(1,631)
Total comprehensive income for the period	$ 39,322	$ 35,689	$ 124,871	$ 113,619
Net earnings per share (basic) (note 8)	$ 0.59	$ 0.55	$ 1.87	$ 1.85
Net earnings per share (diluted) (note 8)	$ 0.59	$ 0.54	$ 1.86	$ 1.83

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

NFI GROUP INC. (FORMERLY NEW FLYER INDUSTRIES INC.)
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at September 30, 2018
(unaudited, in thousands of U.S. dollars)

		September 30, 2018		December 31, 2017 (restated note 2.4, 14)
Assets				
Current				
Cash	$	1,634	$	—
Accounts receivable (note 3,10 e)		385,342		386,467
Income tax receivable		31,706		24,911
Inventories (note 4)		402,772		359,482
Derivative financial instruments (note 10 b,c)		6,453		8,217
Prepaid expenses and deposits		11,092		15,253
		838,999		794,330
Property, plant and equipment		239,797		186,873
Accrued benefit asset		3,100		—
Derivative financial instruments (note 10 b,c)		8,858		7,422
Goodwill and intangible assets		959,111		985,962
Other long term asset		332		—
	$	2,050,197	$	1,974,587
Liabilities				
Current				
Bank indebtedness	$	—	$	9,938
Accounts payable and accrued liabilities		359,021		312,560
Income tax payable		—		7,328
Current portion of long-term liabilities (note 14)		70,436		93,359
		429,457		423,185
Accrued benefit liability		1,244		19,804
Obligations under finance leases		19,127		9,400
Deferred compensation obligation		7,356		10,083
Deferred revenue		10,408		8,697
Other long-term liabilities		1,053		1,107
Provisions (note 13)		62,924		65,266
Deferred tax liabilities (note 5)		86,763		88,453
Long-term debt (note 6)		618,461		580,763
	$	1,236,793	$	1,206,758
Commitments and contingencies (note 12)				
Shareholders' equity				
Share capital (note 7)		660,102		665,602
Stock option and restricted share unit reserve		5,617		4,724
Accumulated other comprehensive loss		(2,132)		(9,876)
Treasury shares		(358)		—
Retained earnings		150,175		107,379
	$	813,404	$	767,829
	$	2,050,197	$	1,974,587

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

Approved and authorized by the board of directors on November 6, 2018.

NFI GROUP INC. (FORMERLY NEW FLYER INDUSTRIES INC.)

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the period ended September 30, 2018

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

	Share Capital	Equity Component of Convertible Debentures	Stock Option and Restricted Share Unit Reserve	Accumulated Other Comprehensive Loss	Treasury shares	Retained Earnings (Deficit)	Total Shareholders' Equity
Balance, January 1, 2017	**$ 653,671**	**$ 481**	**$ 3,514**	**$ (3,034)**	**$ —**	**$ (24,465)**	**$ 630,167**
Net earnings	—	—	—	—	—	115,250	115,250
Other comprehensive loss	—	—	—	(1,631)	—	—	(1,631)
Dividends declared on common shares	—	—	—	—	—	(43,216)	(43,216)
Share-based compensation, net of deferred income taxes	—	—	1,530	—	—	—	1,530
Shares issued	3,305	—	(454)	—	—	—	2,851
Conversion of debentures to common shares	8,384	(481)	—	—	—	—	7,903
Balance, October 1, 2017	**$ 665,360**	**$ —**	**$ 4,590**	**$ (4,665)**	**$ —**	**$ 47,569**	**$ 712,854**
Net earnings	—	—	—	—	—	76,118	76,118
Other comprehensive loss	—	—	—	(5,211)	—	—	(5,211)
Dividends declared on common shares	—	—	—	—	—	(16,308)	(16,308)
Share-based compensation, net of deferred income taxes	—	—	294	—	—	—	294
Shares issued	242	—	(160)	—	—	—	82
Conversion of debentures to common shares	—	—	—	—	—	—	—
Balance, December 31, 2017	**$ 665,602**	**$ —**	**$ 4,724**	**$ (9,876)**	**$ —**	**$ 107,379**	**$ 767,829**
Net earnings	—	—	—	—	—	117,127	117,127
Other comprehensive income	—	—	—	7,744	—	—	7,744
Dividends declared on common shares	—	—	—	—	—	(51,862)	(51,862)
Repurchase and cancellation of common shares	(8,084)	—	—	—	—	(21,504)	(29,588)
Change in share purchase commitment	—	—	—	—	(358)	(965)	(1,323)
Share-based compensation, net of deferred income taxes	—	—	1,788	—	—	—	1,788
Shares issued	2,584	—	(895)	—	—	—	1,689
Balance, September 30, 2018	**$ 660,102**	**$ —**	**$ 5,617**	**$ (2,132)**	**$ (358)**	**$ 150,175**	**$ 813,404**

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

NFI GROUP INC. (FORMERLY NEW FLYER INDUSTRIES INC.)

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the period ended September 30, 2018
(unaudited, in thousands of U.S. dollars)

	13-Weeks Ended September 30, 2018	13-Weeks Ended October 1, 2017	39-Weeks Ended September 1, 2018	39-Weeks Ended October 1, 2017
Operating activities				
Net earnings for the period	$ 37,031	$ 34,577	$ 117,127	$ 115,250
Income tax expense	11,905	17,569	42,778	59,295
Depreciation of plant and equipment	8,028	7,014	22,954	20,023
Amortization of intangible assets	8,078	7,225	26,825	21,572
Share-based compensation	479	273	1,375	1,106
Interest and finance costs recognized in profit or loss	6,938	4,937	17,035	14,769
Fair value adjustment for total return swap	(541)	798	918	(3,784)
Unrealized foreign exchange loss (gain) on non-current monetary items	(2,649)	(479)	70	(2,927)
Foreign exchange gain on cash held in foreign currency	(210)	(172)	(483)	(512)
Gain on bargain purchase of subsidiary company	—	(1,485)	—	(1,485)
Loss (gain) on disposition of property, plant and equipment	244	22	275	(195)
Defined benefit expense	1,378	1,289	10,578	3,812
Defined benefit funding	(5,911)	(942)	(21,633)	(6,451)
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	64,770	70,626	217,819	220,473
Changes in non-cash working capital items (note 9)	(2,183)	(25,917)	(32,352)	35,667
Cash generated from operating activities before interest and income taxes paid	62,587	44,709	185,467	256,140
Interest paid	(5,582)	(4,549)	(16,735)	(14,082)
Income taxes paid	(14,780)	(23,004)	(60,928)	(77,371)
Net cash generated from operating activities	42,225	17,156	107,804	164,687
Financing activities				
Repayment of obligations under finance leases	(1,523)	(1,034)	(3,578)	(3,046)
Proceeds from (repayment of) long-term debt	4,400	562	36,500	(77,000)
Share issuance	129	2,420	1,689	2,851
Repayment of convertible debentures	—	—	—	(141)
Repayment of other long-term liabilities	—	—	(1,000)	(1,000)
Repurchase of shares	(21,410)	—	(29,588)	—
Dividends paid	(17,917)	(15,751)	(50,098)	(37,759)
Net cash used in financing activities	(36,321)	(13,803)	(46,075)	(116,095)
Investing activities				
Acquisition of intangible assets	—	(11)	(18)	(67)
Proceeds from disposition of property, plant and equipment	160	141	225	508
Net cash used in acquisition of Carlson Engineered Composites Inc.	—	18	—	(11,439)
Net cash used in acquisition of Sintex Wausaukee Composites Inc.	—	(3,978)	—	(3,978)
Acquisition of property, plant and equipment	(20,206)	(16,357)	(50,847)	(31,761)
Net cash used in investing activities	(20,046)	(20,187)	(50,640)	(46,737)
Effect of foreign exchange rate on cash	210	172	483	512
Increase (decrease) in cash	(13,932)	(16,662)	11,572	2,367
(Bank indebtedness) cash — beginning of period	15,566	32,076	(9,938)	13,047
Cash — end of period	$ 1,634	$ 15,414	$ 1,634	$ 15,414

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

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

1. CORPORATE INFORMATION

NFI Group Inc. ("NFI" or the "Company") was incorporated on June 16, 2005 as New Flyer Industries Inc. under the laws of the Province of Ontario. The name of the Company was changed to "NFI Group Inc." on May 14, 2018 to better reflect the multi-platform nature of the Company's business. NFI is the largest transit bus and motor coach manufacturer and parts distributor in North America with fabrication, manufacturing, distribution and service centers in Canada and the United States. The Company provides a comprehensive suite of mass transportation solutions under several brands: New Flyer® (heavy-duty transit buses), MCI® (motor coaches), ARBOC® (low-floor cutaway and medium-duty buses) and NFI Parts™ (bus and coach parts and support).

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

These unaudited interim condensed consolidated financial statements (the "Statements") were approved by the Company's board of directors (the "Board") on November 6, 2018.

1.1 Acquisition of ARBOC Specialty Vehicles, LLC

On December 1, 2017 (the "Acquisition Date"), the Company acquired 100% of the voting equity interest in ARBOC Specialty Vehicles, LLC ("ARBOC"). ARBOC, established in 2008 and located in Middlebury, Indiana, is the North American pioneer and leader in low-floor body-on-chassis (or "cutaway") bus technology. ARBOC also builds medium-duty transit and shuttle buses. The acquisition has been accounted for using the acquisition method. The fair values of the identifiable assets and liabilities acquired have been based on management's best estimates and valuation techniques as at the Acquisition Date. The Company adjusted the preliminary purchase price allocation as set out below to account for information that was not previously available. The adjustments resulted in a decrease of goodwill of $46. The purchase price allocation was finalized on July 1, 2018.

	Original	Adjustments	Revised
Cash purchase price	$ 99,885	$ —	$ 99,885
Less: working capital adjustment	—	(46)	(46)
Less: cash acquired	(3,261)	—	(3,261)
Net cash used in acquisition	96,624	(46)	96,578
Net assets acquired			
Accounts receivable	601	—	601
Income tax receivable	1,351	—	1,351
Inventories	6,437	—	6,437
Prepaid expenses and deposits	473	—	473
Property, plant and equipment	3,408	—	3,408
Deferred tax assets	685	—	685
Accounts payable and accrued liabilities	(3,789)	—	(3,789)
Provision for warranties	(475)	—	(475)
Other long-term liabilities	(1,107)	—	(1,107)
Deferred tax liabilities	(25,502)	—	(25,502)
Net tangible assets acquired	(17,918)	—	(17,918)
Trade names	4,800	—	4,800
Patent and licenses	7,000	—	7,000
Customer relationships	50,500	—	50,500
Backlog of sales orders	3,200	—	3,200
Identifiable intangible assets acquired	65,500	—	65,500
Goodwill acquired	$ 49,042	$ (46)	$ 48,996

The goodwill acquired is largely attributable to the synergies and economies of scale expected from the combined businesses of NFI and ARBOC. This goodwill is not expected to be deductible for tax purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Statements are the same as those applied by the Company in its audited consolidated financial statements as at and for the 52-week period ended December 31, 2017 ("Fiscal 2017"). These Statements should be read in conjunction with the Company's audited consolidated financial statements for Fiscal 2017.

2.1 Statement of Compliance

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

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

2.2 Basis of preparation

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

In preparing these Statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied by the Company in its audited consolidated financial statements as at and for Fiscal 2017.

2.3 Principles of consolidation

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

2.4 New and amended standards adopted by the Company

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 fair value through profit or loss, held to maturity, loans and receivables and available for sale. Under IFRS 9, financial asset derivatives are never bifurcated.

- 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
Bank indebtedness	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 recognize 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.

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

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 the revenue that is now required to be recorded as deferred. There is therefore, no retained earnings impact in the transitional adjustment and it only affects certain statements of financial position accounts as shown below:

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

2.5 Standards issued but not yet adopted

IFRS 16 – Leases:

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

2.6 Fiscal periods

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

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

3. ACCOUNTS RECEIVABLE

	September 30, 2018	December 31, 2017
Trade, net of allowance for doubtful accounts	$ 364,469	$ 349,036
Other	20,873	37,431
	$ 385,342	$ 386,467

4. INVENTORIES

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

	September 30, 2018	December 31, 2017
Raw materials	$ 189,852	$ 182,240
Work in process	156,508	101,611
Finished goods	56,412	75,631
	$ 402,772	$ 359,482

	13-Weeks Ended September 30, 2018	13-Weeks Ended October 1, 2017	39-Weeks Ended September 30, 2018	39-Weeks Ended October 1, 2017
Cost of inventories recognized as expense and included in cost of sales	$ 491,247	$ 419,579	$ 1,481,515	$ 1,296,221
Write-down of inventory to net realizable value in cost of sales	2,121	2,156	5,877	3,825
Reversals of a previous write-down in inventory	12	527	2,318	136

5. DEFERRED TAXES AND INCOME TAX EXPENSE

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

	September 30, 2018	December 31, 2017
As presented on statements of financial position:		
Deferred tax liabilities	$ (86,763)	$ (88,453)

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

	13-Weeks Ended September 30, 2018	13-Weeks Ended October 1, 2017	39-Weeks Ended September 30, 2018	39-Weeks Ended October 1, 2017
Beginning of period	$ (88,474)	$ (85,855)	$ (88,453)	$ (94,324)
Tax assumed on Carlson Engineered Composites Inc.	—	—	—	(889)
Tax recorded on Sintex Wausaukee Composites Inc. net assets	—	(977)	—	(977)
Exchange differences	224	(5)	60	93
Tax recorded through net earnings	2,093	10,706	3,990	17,862
Tax recorded through other comprehensive loss	(820)	(759)	(2,751)	1,016
Benefit of loss carry forward and share issuance costs recognized against income taxes payable	—	(27)	(29)	(87)
Tax recorded through equity	214	(326)	420	63
End of period	$ (86,763)	$ (77,243)	$ (86,763)	$ (77,243)

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

Deferred tax liabilities	Unrealized Foreign Exchange	Property Plant and Equipment	Goodwill and Intangibles	Pensions	Other	Total
December 31, 2017	$ (8,025)	$ (6,275)	$ (136,594)	$ (2,464)	$ (5,332)	$ (158,690)
Tax reversed through net earnings	5,992	(1,813)	6,781	741	489	12,190
September 30, 2018	$ (2,033)	$ (8,088)	$ (129,813)	$ (1,723)	$ (4,843)	$ (146,500)

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

Deferred tax assets	Reserves and accruals not currently deductible	Tax Credits	Provisions	Property Plant and Equipment	Pension	Deferred Financing Costs and Interest	Other	Total
December 31, 2017	$ 23,513	$ 1,153	$ 30,502	$ 1,648	$ 3,541	$ 2,395	$ 7,485	$ 70,237
Tax recovered (charged) through net earnings	(5,907)	(67)	42	(1,649)	288	(652)	(255)	(8,200)
Tax recorded through other comprehensive loss	—	—	—	—	(2,751)	—	—	(2,751)
Tax recorded through equity	—	—	—	—	—	—	420	420
Benefit of loss carry forward and share issuance costs recognized against income taxes payable	—	—	—	—	—	(29)	—	(29)
Exchange differences	21	—	28	1	3	2	5	60
September 30, 2018	$ 17,627	$ 1,086	$ 30,572	$ —	$ 1,081	$ 1,716	$ 7,655	$ 59,737

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

	13-Weeks Ended September 30, 2018	**13-Weeks Ended October 1, 2017**	**39-Weeks Ended September 30, 2018**	**39-Weeks Ended October 1, 2017**
Earnings before income tax expense	$ 48,936	$ 52,146	$ 159,905	$ 174,545
Tax calculated using a 21% (October 1, 2017: 35%) U.S. tax rate	10,276	18,251	33,580	61,091
Tax effect of:				
Withholding and other taxes	543	519	1,518	991
Non-taxable income	72	(3,692)	108	(10,788)
Foreign exchange impact	(3,611)	2,879	(3,775)	5,826
State taxes	4,134	1,276	9,855	6,477
U.S. tax reform impact on foreign tax credits	423	—	1,494	—
Rate differential on income taxed at other than U.S. statutory rate	(204)	(1,293)	(446)	(3,137)
Revision of estimates	(95)	(1,167)	260	(1,774)
Other	367	796	184	609
Income tax expense for the period	$ 11,905	$ 17,569	$ 42,778	$ 59,295

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

6. LONG-TERM DEBT

	Face Value	Unamortized Transaction Costs	**Net Book Value September 30, 2018**	Net Book Value December 31, 2017
Term Credit Facility	$ 482,000	$ 2,039	$ 479,961	$ 478,763
Revolving Credit Facility (“Revolver”)	138,500	—	138,500	102,000
	$ 620,500	$ 2,039	$ 618,461	$ 580,763

On December 18, 2015, the Company entered into its fifth amended and restated senior secured credit agreement (the “Credit Facility”) which has a total borrowing limit of $825.0 million. The term facility (the "Term Credit Facility") and the Revolver mature on December 18, 2019. Under the Credit Facility the borrowing limit of the Revolver is $343.0 million to support working capital fluctuations. The Revolver includes a $55.0 million letter of credit sub-facility, of which $13.9 million of outstanding letters of credit were drawn at September 30, 2018. Under the Credit Facility the borrowing limit of the Term Credit Facility is $482.0 million. The Credit Facility also includes an accordion feature of $75.0 million.

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

At December 31, 2017, there was no current portion of the Credit Facility due to the long-term nature of the Term Credit Facility and the Revolver. As such, the interest charges on the Revolver which was previously classified as “other interest and bank charges” had been reclassed as “interest on long-term debt and convertible debentures” to better align with the Revolver’s reclassification as long-term debt. This reclassification has no impact to the total "interest and finance costs" amount in the unaudited interim consolidated statements of net earnings and total comprehensive income.

On October 25, 2018 NFI entered into a new senior unsecured, revolving credit facility (the “New Credit Facility”) with a total borrowing limit of $1.0 billion, which includes a $100 million letter of credit facility. The New Credit Facility replaces the existing secured Credit Facility. The New Credit Facility includes a $250 million accordion feature.

		13-Weeks Ended October 1, 2017		**39-Weeks Ended October 1, 2017**
Interest on long-term debt and convertible debentures - originally reported	$	3,364	$	10,646
Reclassification		585		1,872
Interest on long-term debt and convertible debentures - restated	$	3,949	$	12,518
Other interest and bank charges - originally reported	$	1,317	$	3,531
Reclassification		(585)		(1,872)
Other interest and bank charges - restated	$	732	$	1,659

7. SHARE CAPITAL

		September 30, 2018		December 31, 2017
Authorized - Unlimited				
Issued - 62,385,916 Common Shares (December 31, 2017: 62,951,444)	$	660,102	$	665,602

Share repurchase

On June 11, 2018, the Company announced that the TSX had accepted a notice filed by the Company of its intention to implement a Normal Course Issuer Bid ("NCIB") to repurchase its Shares 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. 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 the third quarter of 2018 ("2018 Q3"), the Company repurchased 514,000 Shares (of which 33,800 Shares were settled and canceled after September 30, 2018) at an average price of C$51.07 per Share for a total repurchase cost of C$26.3 million during 2018 Q3 and $1.7 million settled after September 30, 2018.

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

Shares	Number (000s)		Net Book Value
Balance - December 31, 2017	62,951	$	665,602
Stock options exercised	186		1,933
Restricted share units exercised	13		651
Repurchase and cancellation of Shares	(764)		(8,084)
Balance - September 30, 2018	62,386	$	660,102

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

8. EARNINGS PER SHARE

	13-Weeks Ended September 30, 2018	13-Weeks Ended October 1, 2017	39-Weeks Ended September 30, 2018	39-Weeks Ended October 1, 2017
Net earnings attributable to equity holders	$ 37,031	$ 34,577	$ 117,127	$ 115,250
Weighted average number of Shares outstanding	62,860,422	62,907,984	62,481,052	62,337,488
Net incremental Shares from assumed conversion of stock options	437,615	617,924	481,627	604,752
Weighted average number of Shares for diluted earnings per Share	63,298,037	63,525,908	62,962,679	62,942,240
Net earnings per Share (basic)	$ 0.5891	$ 0.5496	$ 1.8746	$ 1.8488
Net earnings per Share (diluted)	$ 0.5850	$ 0.5443	$ 1.8603	$ 1.8310

Basic earnings per Share is calculated by dividing the net earnings attributable to equity holders of the Company by the weighted average number of Shares outstanding during the period excluding Shares purchased by the Company and held as treasury shares. As at September 30, 2018, the Company held 33,800 Shares as treasury shares as a result of purchases made under the NCIB that awaited settlement and cancellation. These Shares have been presented as a reduction to shareholders' equity.

Diluted earnings per Share is calculated using the same method as basic earnings per Share, except that the average number of Shares outstanding includes the potential dilutive effect of outstanding stock options granted by the Company as determined by the treasury stock method and the outstanding directors' restricted share units.

9. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	13-Weeks Ended September 30, 2018	13-Weeks Ended October 1, 2017	39-Weeks Ended September 30, 2018	39-Weeks Ended October 1, 2017
Accounts receivable	$ (9,861)	$ (1,549)	$ 1,125	$ 54,545
Income tax receivable	(1,247)	—	(6,792)	—
Inventories	(7,948)	(32,846)	(54,758)	(35,413)
Prepaid expenses and deposits	3,294	6,610	4,161	3,123
Accounts payable and accrued liabilities	13,511	4,008	45,145	22,414
Income taxes payable	—	4,835	(7,328)	5,781
Deferred revenue	(3,374)	(6,328)	(12,669)	(23,712)
Provisions	(1,105)	2,571	(4,174)	16,412
Other	4,547	(3,218)	2,938	(7,483)
	$ (2,183)	$ (25,917)	$ (32,352)	$ 35,667

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

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Financial Instruments

The Company has made the following classifications:

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

(b) Fair value measurement of financial instruments

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

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

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

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

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

	September 30, 2018		
	Fair value level	Carrying amount	Fair value
Financial assets recorded at fair value			
Total return swap contracts	Level 2	$ 5,653	$ 5,653
Interest rate swap	Level 2	8,858	8,858
Foreign exchange forward contracts	Level 2	$ 800	$ 800
Derivative financial instrument assets		$ 15,311	$ 15,311

(c) Risk Management

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

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

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

On January 22, 2016, the Company entered into a $142,000 interest rate swap designed to hedge floating rate exposure on the $482,000 Term Credit Facility. 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 at September 30, 2018 is $8,858 (December 31, 2017: $7,422) and the change in fair value has been recorded as finance costs for the reported period. The related asset has been recorded on the unaudited interim condensed consolidated statements of financial position as a derivative financial instruments asset.

The Company has entered into a total return swap transaction to hedge the exposure associated with increases in its share value on a portion of the outstanding performance share units, restricted share units and deferred share units. The total return swap has a re-investment feature which increases the number of Shares in the swap when dividends are paid by the Company. As at September 30, 2018, the Company held a position of 441,570 Shares at a weighted average price of C$33.92. The Company does not apply hedge accounting to these derivative instruments and as such, gains and losses arising from marking these derivatives to market are recognized in net earnings in the period in which they arise.

At September 30, 2018, the Company had $70 million of foreign exchange forward contracts to buy Canadian dollars with U.S. dollars at an average agreed exchange rate of $0.76. These foreign exchange contracts range in expiry dates from September 2018 to January 2019. The related asset of $0.8 million (December 31, 2017: $1.4 million) is recorded on the unaudited interim consolidated statements of financial position as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the unaudited interim consolidated statements of net earnings and total comprehensive income.

(d) Liquidity Management

The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At September 30, 2018, the Company had a cash balance of $1,634 (December 31, 2017: $9,938 of bank indebtedness) and the $343,000 Revolver. As at September 30, 2018, there was $138,500 of direct borrowings (December 31, 2017: $102,000) and $13,890 of outstanding letters of credit (December 31, 2017: $8,817) under the Revolver.

The Company's principal sources of funds are cash generated from its operating activities, share issuances and borrowing capacity remaining under the Credit Facility and, subsequent to October 25, 2018, under the New Credit Facility. Management believes these sources of funds will provide NFI with sufficient liquidity and capital resources to meet its current and future financial obligations as they come due, as well as to provide funds for its financing requirements, capital expenditures and other needs for the foreseeable future.

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

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(e) Credit risk

The carrying amount of accounts receivable is reduced through the use of an allowance account and the amount of the loss is recognized in the unaudited interim condensed consolidated statements of net earnings and total comprehensive income within “sales, general and administration costs and other operating expenses”. When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against “sales, general and administration costs and other operating expenses” in the unaudited interim condensed consolidated statements of net earnings and total comprehensive income. The following table details the aging of the Company’s receivables and related allowance for doubtful accounts:

	September 30, 2018	December 31, 2017
Current, including holdbacks	$ 369,020	$ 361,805
Past due amounts but not impaired		
1 – 60 days	11,968	22,306
Greater than 60 days	5,149	2,878
Less: Allowance for doubtful accounts	(795)	(522)
Total accounts receivables, net	$ 385,342	$ 386,467

As at September 30, 2018, there was no amount that would otherwise be past due or impaired whose terms have been renegotiated.

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

There are certain financial covenants under the Credit Facility that must be maintained. These financial covenants include an interest coverage ratio and total leverage ratio. In accordance with terms of the Credit Facility, the Debentures are treated as equity for purposes of calculating the total leverage ratio. At September 30, 2018, the Company was in compliance with the ratios. The results of the financial covenants tests as of such date are as follows:

	September 30, 2018	December 31, 2017
Total Leverage Ratio (must be less than 3.50)	1.97	1.84
Interest Coverage Ratio (must be greater than 3.00)	14.66	17.15

The total leverage ratio covenant was reduced by 0.25 to 3.50 beginning January 1, 2018. Under the New Credit Facility entered into on October 25, 2018, the total leverage ratio is increased to 3.75 and increases to 4.25 in the event of a material acquisition. The interest coverage ratio remains unchanged.

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

11. SEGMENT INFORMATION

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

The Manufacturing Operations segment derives its revenue from the manufacture, service and support of new transit buses, coaches, medium duty buses and cutaways. Based on management’s judgement and applying the aggregation criteria in IFRS 8.12, the Company’s transit bus, motor coach and cutaway operations fall under a single reportable segment. Aggregation of these operating segments is based on the segments having similar economic characteristics with similar long-term average returns, products and services, production methods, distribution, geographic market and regulatory environment.

The Manufacturing Operations segment has recorded vendor rebates of $1,507 (2017 Q3: $1,011), which have been recognized into earnings during 2018 Q3, but for which the full requirements for entitlement to these rebates have not yet been met.

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

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

Organizational changes to better align business functions within operating segments were made effective January 2, 2017. These organizational changes were implemented in two phases. In 2017, over-the-counter parts sales were moved from the coach 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.

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

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

Segment information about profits and assets is as follows:

	13-Weeks Ended September 30, 2018			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 512,178	$ 93,164	—	$ 605,342
Operating costs and expenses	465,041	77,841	13,524	556,406
Earnings (loss) before income tax expense	47,137	15,323	(13,524)	48,936
Total assets	1,402,630	396,035	251,532	2,050,197
Addition of capital expenditures	18,730	1,476	—	20,206
Addition of goodwill and intangibles assets	—	—	—	—
Goodwill	304,804	131,474	—	436,278

	13-Weeks Ended October 1, 2017 ("restated")			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 454,083	$ 87,638	—	541,721
Operating costs and expenses - originally reported	404,800	73,182	11,593	489,575
Adjustment	2,089	(2,089)	—	—
Operating costs and expenses - restated	406,889	71,093	11,593	489,575
Earnings (loss) before income tax expense - originally reported	49,283	14,456	(11,593)	52,146
Adjustment	(2,089)	2,089	—	—
Earnings (loss) before income tax expense - restated	47,194	16,545	(11,593)	52,146
Total assets	1,130,028	393,196	320,234	1,843,458
Addition of capital expenditures	16,121	236	—	16,357
Addition of goodwill and intangibles assets	11	—	—	11
Goodwill	255,808	131,474	—	387,282

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

	39-Weeks Ended September 30, 2018			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 1,565,347	$ 291,654	—	$ 1,857,001
Operating costs and expenses	1,413,676	240,800	42,620	1,697,096
Earnings (loss) before income tax expense	151,671	50,854	(42,620)	159,905
Total assets	1,402,630	396,035	251,532	2,050,197
Addition of capital expenditures	47,737	3,110	—	50,847
Addition of goodwill and intangibles assets	18	—	—	18
Goodwill	304,804	131,474	—	436,278

	39-Weeks Ended October 1, 2017 ("restated")			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 1,449,505	$ 277,793	—	$ 1,727,298
Operating costs and expenses - originally reported	1,292,871	227,265	32,617	1,552,753
Adjustment	5,791	(5,791)	—	—
Operating costs and expenses - restated	1,298,662	221,474	32,617	1,552,753
Earnings (loss) before income tax expense - originally reported	156,634	50,528	(32,617)	174,545
Adjustment	(5,791)	5,791	—	—
Earnings (loss) before income tax expense - restated	150,843	56,319	(32,617)	174,545
Total assets	1,130,028	393,196	320,234	1,843,458
Addition of capital expenditures	31,143	618	—	31,761
Addition of goodwill and intangibles assets	6,281	—	—	6,281
Goodwill	255,808	131,474	—	387,282

12. COMMITMENTS AND CONTINGENCIES

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

The Company's guarantee under each bond issued by the surety companies expires on completion of obligations under the customer contract to which the bond relates. The estimated maturity dates of the surety bonds outstanding at September 30, 2018 range from September 2018 to August 2020.

At September 30, 2018, outstanding surety bonds guaranteed by the Company totaled $412,429 (December 31, 2017: $327,290). The Company has not recorded any liability under these guarantees, as management believes that no material events of default exist under any contracts with customers.

(b) The Company has a letter of credit sub-facility of $55,000 as part of the $343,000 Revolver. As at September 30, 2018, letters of credit totaling $13,890 (December 31, 2017: $8,817) remain outstanding under the letter of credit sub-facility.

As at September 30, 2018, management believes that the Company was in compliance in all material respects with all applicable contractual obligations and the Company has not provided for any costs associated with these letters of credit.

13. PROVISIONS

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

	Insurance Risk Retention	Warranty	Total
December 31, 2017	$ 22,746	$ 80,358	$ 103,104
Additions	4,733	26,122	30,855
Paid claims	(7,275)	(27,192)	(34,467)
Unwinding of discount and effect of changes in the discount rate	—	(52)	(52)
Exchange differences	—	(525)	(525)
	20,204	78,711	98,915
Less current portion	2,151	33,840	35,991
September 30, 2018	$ 18,053	$ 44,871	$ 62,924

14. CURRENT PORTION OF LONG TERM LIABILITIES

	September 30, 2018	December 31, 2017 (restated note 2.4)
Deferred revenue	$ 19,751	$ 34,131
Provisions	35,991	37,838
Other long-term liabilities	—	981
Deferred compensation obligation	7,043	15,724
Obligations under finance leases	7,651	4,685
	$ 70,436	$ 93,359