March 13, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS AND 52-WEEKS ENDED DECEMBER 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 audited consolidated financial statements (including notes) (the "Financial Statements") for the 13-week period and the 52-week period ended December 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"), KMG Fabrication, Inc. ("KMG"), 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"), New MCI Holdings, Inc. and its affiliated entities (collectively, "MCI") and NFI Holdings Luxembourg s.a.r.l. References to "New Flyer" generally refer to NFI ULC, NFAI, TAPC, KMG, 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 December 30, 2018, 61,832,625 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 or "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, are 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, fair value adjustment for total return swap, unrealized foreign exchange losses or gains on non-current monetary items and forward foreign exchange contracts, costs associated with assessing strategic and corporate initiatives, past service costs, non-recurring costs or recoveries relating to business acquisitions, fair value adjustment to acquired subsidiary company's inventory and deferred revenue, proportion of the total return swap realized, equity settled stock-based compensation, gain on bargain purchase of subsidiary company, and provision release related to purchase accounting. "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, principal portion of finance lease payments, cash capital expenditures, proceeds from disposition of property, plant and equipment, costs associated with assessing strategic and corporate initiatives, non-recurring transitional costs related to business acquisition, fair value adjustment to acquired subsidiary company's inventory and deferred revenue, defined benefit funding, defined benefit expense, past service costs, gain received on total return swap, foreign exchange gain (loss) on cash held in foreign currency. 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 North America's largest bus and coach manufacturer and parts distributor providing a comprehensive suite of mass transportation solutions under brands: New Flyer® (heavy-duty transit buses), ARBOC® (low-floor cutaway and medium-duty buses), MCI® (motor coaches), NFI Parts™ (parts, support, and service) and Carfair® (fibre-reinforced plastic and composites). The Company has over 6,000 team members, operating from 31 facilities across Canada and the United States, and 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's buses incorporate the widest range of drive systems available including: clean diesel, natural gas, diesel-electric hybrid, and zero-emission electric (trolley, battery, and fuel cell) on proven bus platforms. It also supports infrastructure development through New Flyer Infrastructure Solutions™, a service dedicated to providing safe and reliable charging and mobility solutions.

In total, the Company supports over 74,000 buses and coaches currently in service across North America. The Company's Shares are traded on the Toronto Stock Exchange under the symbol NFI.

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 41,000 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.

MCI is North America's public and private market motor coach leader, building the J4500 (the industry's best-seller for 13 consecutive years), the all-new 35-foot J3500 model, and the workhorse D-Series including the breakthrough ADA-accessible MCI D45 Commuter Rapid Transit (CRT) Low Entry Commuter Coach offering lower dwell times. With nearly 30,000 MCI coaches on the road, MCI also provides maintenance, repair, 24-hour roadside assistance, parts supply through NFI Parts, and technician training through the industry's only Automotive Service Excellence (ASE) accredited MCI Academy.

ARBOC is North America's low-floor cutaway bus leader serving transit, paratransit, and shuttle applications. With more than 3,000 buses produced, ARBOC leads the low-floor cutaway bus market providing unsurpassed passenger accessibility and comfort. ARBOC also offers the Spirit of Equess® ("Equess"), Spirit of Liberty® and Spirit of America® medium-duty buses 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.

Carfair is a leader in fibre-reinforced plastic ("FRP") composites manufacturing and has over 700 dedicated team members located in facilities in Canada and the U.S. As a comprehensive manufacturer of engineered composite products, Carfair supplies to original equipment manufacturers ("OEM") in agriculture, construction, transportation, commercial, and medical industries, and is primarily focused on supplying NFI Group companies. Carfair brings together the strength of historic North American composite leaders formerly known as Carlson Composites, Frank Fair Industries and Sintex-Wausaukee Composites.

2018 Fourth Quarter Financial Results

Year-over-year comparisons reported in this MD&A compares 2018 Q4 to 2017 Q4 and Fiscal 2018 to Fiscal 2017. 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.

On December 1, 2017, the Company acquired ARBOC. To enhance comparability between the periods, proforma results for 2017 Q4 and Fiscal 2017 are provided. If ARBOC had been acquired on January 2, 2017, the unaudited consolidated pro forma revenue, Adjusted EBITDA and deliveries for 2017 Q4 and Fiscal 2017 would have been as follows:

Revenue - Manufacturing Segment Only (Unaudited Quarterly Results, U.S. dollars in millions)	**2017 Q4**	**Fiscal 2017**
ARBOC cutaway buses revenue	$ 7.7	$ 35.2
NFI's manufacturing revenue, excluding ARBOC	560.8	2,010.3
NFI's pro forma revenue	$ 568.5	$ 2,045.5
Adjusted EBITDA - Manufacturing Segment Only (Unaudited, U.S. dollars in thousands)	**2017 Q4 (restated)**	**Fiscal 2017**
ARBOC's pro forma manufacturing Adjusted EBITDA[1]	1,470	8,435
NFI's manufacturing Adjusted EBITDA, excluding ARBOC	72,332	237,945
NFI pro forma manufacturing Adjusted EBITDA	$ 73,802	$ 246,380
NFI pro forma Adjusted EBITDA per EU	$ 65.5	$ 59.2
Deliveries	**2017 Q4**	**2017 YTD**
ARBOC cutaway sales (EUs)	86	364
NFI new transit bus and coach	1,041	3,801
Total pro forma deliveries	1,127	4,165

[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) (Unaudited)	**2018 Q4**	**2017 Q4**	**Fiscal 2018**	**Fiscal 2017**
Transit buses	679	695	2,781	2,730
Motor coaches	341	346	1,030	1,071
Medium-duty and cutaway buses	106	27	502	27
New transit bus, coach and cutaway	1,126	1,068	4,313	3,828
Pre-owned coach	187	146	468	410
Average EU selling price[1] (Unaudited, U.S. dollars in thousands)				
Transit buses	$ 556.5	$ 512.3	$ 540.1	$ 507.8
Motor coaches	516.2	528.2	521.5	532.8
Medium-duty and cutaway buses	88.9	85.0	83.2	85.0
New transit bus, coach and cutaway	$ 500.3	$ 506.6	$ 482.5	$ 511.8
Pre-owned coaches	$ 58.7	$ 137.5	$ 98.9	$ 123.0

[1] Average EU selling prices vary based on customization and options selected on units delivered and does not represent equivalent changes in margins related to the product lines noted above.

Consolidated Revenue (Unaudited Quarterly Results, U.S. dollars in millions)	2018 Q4	2017 Q4	Fiscal 2018	Fiscal 2017
Transit buses	$ 377.9	$ 356.1	$ 1,502.1	$ 1,386.3
Motor coaches	176.0	182.7	537.2	570.7
Medium-duty and cutaway buses	9.4	2.3	41.8	2.3
New transit bus, coach and cutaway	563.3	541.1	2,081.1	1,959.3
Pre-owned coach	11.0	20.1	46.3	50.4
Fiberglass reinforced polymer components	2.2	2.0	14.5	3.0
Manufacturing	576.5	563.2	2,141.9	2,012.7
Aftermarket	85.5	91.4	377.1	369.2
Total Revenue	$ 662.0	$ 654.6	$ 2,519.0	$ 2,381.9

Manufacturing revenue for 2018 Q4 increased by $13.3 million, or 2.4% compared to 2017 Q4. Transit bus revenues increased by $21.8 million primarily due to higher average selling prices in the 2018 Q4 compared to 2017 Q4. Also contributing to the increase is the full-quarter revenue from ARBOC in 2018 Q4 compared to one-month in 2017 Q4 which resulted in a $7.1 million increase in revenues. These increases were partially offset by lower revenues related to new and pre-owned coaches, primarily due to lower average selling prices.

Manufacturing revenue for Fiscal 2018 increased by $129.2 million, or 6.4% compared to Fiscal 2017, primarily due to higher Transit bus revenues of $116.0 million primarily due to higher selling prices and volume increases in Fiscal 2018 compared to Fiscal 2017. The full-year contribution from ARBOC in Fiscal 2018 compared to one-month in Fiscal 2017 resulted in a $39.5 million increase in revenues. The FRP business also contributed $11.6 million to the revenue increase, primarily as a result of the acquisition of Sintex-Wausaukee Composites Inc. and Carlson Engineered Composites Inc. in 2017. These increases were partially offset by decreases of $33.5 million and $4.2 million from new coach and pre-owned coach businesses. Coach volumes were impacted by management's estimate of a 6.7% decline in motor coach market volume, partially offset by a 2.0% increase in MCI's market share. Lower average selling prices further contributed to the decline. The cancellation of MCI's Distribution Rights Agreement ("DRA") with Daimler for the sale of Setra motor coaches also contributed to the decrease in new coach revenue by $7.7 million.

Revenue from aftermarket operations in 2018 Q4 decreased by $5.9 million, or 6.5% compared to 2017 Q4. The decrease is primarily due to the impact of the cancellation of the DRA of $1.2 million and lower volumes and margins. Fiscal 2018 revenue increased by $7.9 million, or 2.1%, compared to Fiscal 2017. The Fiscal 2018 increase is primarily due to increased volumes during the year and the full-year impact of ARBOC parts sales. These increases are partially offset by the impact of the cancellation of the DRA of $2.7 million.

Adjusted EBITDA (Unaudited, U.S. dollars in millions)	2018 Q4	2017 Q4 (restated)	Fiscal 2018	Fiscal 2017 (restated)
Manufacturing	62.6	72.6	241.7	238.2
Aftermarket	17.3	17.9	73.7	79.8
Total Adjusted EBITDA	$ 79.9	$ 90.5	$ 315.4	$ 318.0
Adjusted EBITDA % of revenue				
Manufacturing	11.1%	12.9%	11.3%	11.8%
Aftermarket	20.2%	19.6%	19.5%	21.6%
Total	12.1%	13.8%	12.5%	13.4%

Manufacturing Adjusted EBITDA per new EU delivered (Unaudited, U.S. dollars in millions)	2018 Q4	2017 Q4 (restated)	Fiscal 2018	Fiscal 2017 (restated)
Manufacturing Adjusted EBITDA	62.6	72.6	241.7	238.2
New transit bus, coach and cutaway deliveries (EUs)	1,126	1,068	4,313	3,828
Manufacturing Adjusted EBITDA per new EU delivered (in thousands)	$ 55.6	$ 68.0	$ 56.0	$ 62.2

Consolidated Adjusted EBITDA for 2018 Q4 decreased by $10.6 million, or 11.7% compared to 2017 Q4. Fiscal 2018 decreased by $2.6 million, or 0.8% compared to Fiscal 2017.

The 2018 Q4 manufacturing Adjusted EBITDA decreased by $10.0 million or 13.7% compared to 2017 Q4. The decrease is primarily due to lower new coach and transit bus volumes and continued pricing pressures on new and pre-owned coach sales. Startup costs related to the Shepherdsville facility resulted in a negative Adjusted EBITDA impact of $3.4 million in 2018 Q4 compared to 2017 Q4. These decreases were partially offset by improved margins from transit buses in 2018 Q4 compared to 2017 Q4.

The Fiscal 2018 manufacturing Adjusted EBITDA increased by $3.5 million, or 1.5%, compared to Fiscal 2017. The increase is primarily due to the higher volumes for transit buses and the $9.2 million increase from full year results of ARBOC (which was acquired in December 2017). These increases were partially offset by losses related to Sintex-Wausaukee Composites Inc., the $0.9 million impact of the cancellation of the DRA on the pre-owned coach business and continued volume and pricing pressures on new coach sales. Coach volumes were impacted by management's estimate of a 6.7% decline in motor coach market volume, partially offset by a 2.0% increase in MCI's market share. Startup costs related to the Shepherdsville facility resulted in a negative Adjusted EBITDA impact of $6.6 million in Fiscal 2018 compared to Fiscal 2017.

The 2018 Q4 and Fiscal 2018 aftermarket Adjusted EBITDA decreased by $0.5 million compared to 2017 Q4. The decrease is primarily due to lower volumes and margins in 2018 Q4 compared to 2017 Q4, partially offset by lower selling, general and administrative expenses. The $6.1 million decrease in Adjusted EBITDA in Fiscal 2018 compared to Fiscal 2017 is primarily due to lower margins. The impact of the cancellation of the DRA for 2018 Q4 and Fiscal 2018 also resulted in a decrease to Adjusted EBITDA of $0.6 million and $1.2 million, respectively. Aftermarket sales and margins vary period-to-period due to the transactional nature of the business.

(Unaudited Quarterly Results, U.S. dollars in millions)	2018 Q4	2017 Q4	Fiscal 2018	Fiscal 2017
Net earnings	$ 42.8	$ 76.1	$ 159.9	$ 191.4
Adjusted net earnings	43.2	80.4	166.9	192.9
Net earnings per share	$ 0.69	$ 1.21	$ 2.56	$ 3.06
Adjusted earnings per share	$ 0.69	$ 1.28	$ 2.68	$ 3.09

Net earnings during 2018 Q4 decreased by $33.3 million, or 43.8% compared to 2017 Q4. The same factors that caused a decrease to Adjusted EBITDA discussed above also led to a decrease in net earnings. Additionally, higher income tax expense of $16.9 million, interest expense of $7.5 million and depreciation of $2.0 million further reduced net earnings in 2018 Q4 compared to 2017 Q4. The increase in income taxes during 2018 Q4 compared to 2017 Q4 was primarily due to the impact of U.S. tax reforms that occurred in December 2017. The reduction in tax rates resulted in a $9 million income tax recovery in 2017 Q4 which did not recur in 2018 Q4.

Net earnings during Fiscal 2018 decreased by $31.5 million, or 16.5% compared to Fiscal 2017. In addition to the factors negatively impacting Adjusted EBITDA, higher depreciation expense of $10.2 million, interest expense of $9.7 million, past service cost adjustment expense of $6.5 million and foreign exchange translation expense of $3.3 million further contributed to the decrease.

As a result of the decreases discussed above, net earnings per Share for 2018 Q4 and Fiscal 2018 decreased by $0.52 and $0.50, respectively, compared to the same periods in 2017.

Adjusted net earnings during 2018 Q4 and Fiscal 2018 decreased by $37.2 million and $26.0 million compared to 2017 Q4 and Fiscal 2017, primarily for the same reasons noted above with respect to changes in net earnings. The decrease in 2018 Q4 adjusted net earnings excludes the 2017 Q4 costs associated with corporate and strategic initiatives of $2.2 million and gain on bargain purchase of Sintex-Wausaukee Composites Inc. in 2017 Q4, both of which did not recur. The Fiscal 2018 Adjusted net earnings included a $4.9 million negative impact relating to past service cost adjustment, which did not occur in 2017.

As a result of the decreases discussed above, adjusted Earnings per Share in 2018 Q4 and Fiscal 2018 decreased by $0.59 and $0.41, respectively, compared to the same periods in 2017.

Free Cash Flow (Unaudited, dollars in millions)	2018 Q4	2017 Q4	Fiscal 2018	Fiscal 2017
Free Cash Flow (U.S. dollars)	42.4	59.3	159.7	161.2
Free Cash Flow (CAD dollars)	57.9	74.4	210.5	206.9
Declared dividends (CAD dollars)	22.9	20.5	90.3	76.1
Payout Ratio (Declared dividends divided by Free Cash Flow)	39.6%	27.6%	42.9%	36.8%

Free cash flow in 2018 Q4 decreased by $16.9 million, or 28.5%, when compared to 2017 Q4, primarily due to lower earnings from operations. The amount of dividends declared increased by 11.7% in 2018 Q4 compared to 2017 Q4 as a result of increases in the annual dividend rate.

Free cash flow in Fiscal 2018 decreased by $1.6 million or 1.0% when compared to Fiscal 2017. The decrease was primarily due to higher planned capital expenditures during the year and an increase in interest costs partially offset by lower current taxes. The amount of dividends declared increased by 18.7% in Fiscal 2018 as a result of increases in the annual dividend rate.

The Company returned $55.0 million back to shareholders in 2018 Q4 as a result of Share repurchases made under its Normal Course Issuer Bid ("NCIB") and dividends paid, which represents an increase of 235.4% when compared to $16.4 million in 2017 Q4. Similarly the Company returned $134.7 million in Fiscal 2018 which represents an increase of 148.1% when compared to $54.3 million in Fiscal 2017.

The liquidity position of $355.4 million as at December 30, 2018 is comprised of available cash of $10.8 million and $344.6 million available under the new five-year senior unsecured, revolving credit facility entered into on October 25, 2018 (the "Credit Facility") as compared to a liquidity position of $222.3 million at December 31, 2017. The increase in liquidity primarily relates to the new Credit Facility which increased the amount available to be drawn by $175.0 million, partially offset by capital returned to shareholders through dividends, the repurchase of Shares under the NCIB and capital expenditures. Changes in non-cash working capital are primarily a result of seasonality and are expected to be temporary in nature. Management believes these funds, together with Share and debt issuances, other borrowings capacity and the cash generated from the Company's operating activities, will provide the Company with sufficient liquidity and capital resources to meet its current financial obligations as they come due, as well as provide funds for its financing requirements, capital expenditures, dividend payments and other operational needs for the foreseeable future.

Property, Plant and Equipment ("PPE") expenditures (Unaudited Quarterly Results, U.S. dollars in millions)	**2018 Q4**	**2017 Q4**	**Fiscal 2018**	**Fiscal 2017**
PPE expenditures	22.2	24.5	89.4	57.4
Less PPE expenditures funded by capital leases	(2.1)	(3.4)	(18.4)	(4.6)
Cash acquisition of PPE reported on statement of cash flows	20.1	21.1	71.0	52.8

PPE cash expenditures for 2018 Q4 decreased by $1.0 million or 4.7% compared to 2017 Q4. Expenditures for Fiscal 2018 increased by $18.2 million or 34.5% as a result of planned increased investments in facilities, parts 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 Fiscal 2018 was 13.7% as compared to 15.8% for Fiscal 2017. 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 which are not expected to generate benefits until 2019. As previously discussed, these investment negatively affected Adjusted EBITDA.

(Unaudited, U.S. dollars in thousands)	**December 30, 2018**	**December 31, 2017**
Total assets	2,074.1	1,974.6
Total long-term liabilities	828.3	783.6
ROIC LTM[(1, 2)]	13.7%	15.8%

(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 at December 30, 2018 was 31%. The ETR used in the ROIC calculation at December 31, 2017 was 35%.

2018 Fourth 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 anticipated 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 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
2018 Q4	**670**	**2,061**	**2,731**	**20,694**	**23,425**

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

Procurement of transit buses and motor coaches by the public sector is typically accomplished through formal multi-year contracts, while procurement by the private sector is typically made on a transactional basis. As a result, the Company does not maintain 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. Cutaway and medium-duty bus activity therefore, is not included in the Bid Universe metric.

Order activity

New orders (firm and options) during 2018 Q4 totaled 857 EUs. The new firm and option orders awarded to the Company for 2018 Q4 LTM were 3,763 EUs. The Company was also successful at converting 575 EUs of options during 2018 Q4 to firm orders, which contributed to the 1,795 EUs of options converted to firm orders in Fiscal 2018.

	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 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
2018 Q4	**857**	**3,763**	**575**	**1,795**

Options

In 2018 Q4, one option EU expired, compared to 288 option EUs that expired during the 2018 Q3.

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

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
A) Options Expired (EUs)	965	504	550	331	741						3,091
B) Options Exercised (EUs)	1,149	1,339	2,064	1,404	1,795						7,751
C) Current Options by year of expiry (EUs)						1,243	1,031	1,633	2,335	942	7,184
D) Conversion rate % = B / (A+B)	**54%**	**73%**	**79%**	**81%**	**71%**						

The Company's conversion rate is lower in Fiscal 2018 compared to Fiscal 2017. The decrease was primarily driven by expired five-year contracts with three customers who no longer required the contracted specific size/propulsion configurations, and who were not permitted to assign the options to other transit agencies due to the amendment to U.S. Federal Transit Administration ("FTA") guidelines which went into effect after the contracts were awarded.

In addition to contracts for identified public 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 OEM.

The Company's Fiscal 2018 Book-to-Bill ratio (defined as new firm and option orders divided by new transit bus, medium-duty, cutaways and coach deliveries) was 87%, down from 152% in Fiscal 2017. The Book-to-Bill ratio in the second half of Fiscal 2018 was impacted by a higher number of smaller individual transactions and by delayed bid activity for multi-year contracts. Management believes transit agencies' assessment of future battery-electric vehicle adoption as a component of their overall fleet renewal strategies contributed to the delays in releasing multi-year procurements.

In addition, 589 EUs of new firm and option orders were pending from customers at the end Fiscal 2018, 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 of the backlog consisting of units 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, but are converted to firm backlog when vehicles are ordered by the dealer.

Transit buses and motor coaches incorporating clean propulsion systems, including compressed natural gas ("CNG"), diesel-electric hybrid, and zero emission buses ("ZEB"), which consist of trolley-electric, fuel cell-electric, and battery-electric buses represent approximately 42.0% of the total backlog. ZEBs represent approximately 5% of total backlog.

	Fiscal 2018			Fiscal 2017		
	Firm Orders	Options	Total	Firm Orders	Options	Total
Beginning of period	4,186	7,971	12,157	3,442	6,745	10,187
New orders	2,015	1,749	3,764	2,859	2,961	5,820
Acquired backlog(1)	—	—	—	315	—	315
Options exercised	1,795	(1,795)	0	1,404	(1,404)	0
Shipments(2)	(4,313)	—	(4,313)	(3,828)	—	(3,828)
Cancelled/expired	(34)	(741)	(775)	(6)	(331)	(337)
End of period	**3,649**	**7,184**	**10,833**	**4,186**	**7,971**	**12,157**
Consisting of:						
Heavy-duty transit buses	3,024	6,177	9,201	3,542	6,622	10,164
Motor coaches	468	1,007	1,475	322	1,349	1,671
Cutaway and medium-duty buses	157	—	157	322	—	322
Total Backlog	3,649	7,184	10,833	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 Fiscal 2018, the Company's total backlog (firm and options) of 10,833 EUs (valued at $5.4 billion) has decreased compared to 12,157 EUs (valued at $6.0 billion) at the end of Fiscal 2017. The summary of the values is provided below.

	Fiscal 2018		Fiscal 2017	
		Equivalent Units		Equivalent Units
Firm orders – USA	$ 1,721,689	3,172	$ 1,886,958	3,713
Firm orders - Canada	215,830	477	212,276	473
Total firm orders	$ 1,937,519	3,649	2,099,234	4,186
Options – USA	3,312,589	6,928	3,772,651	7,637
Options – Canada	101,493	256	147,584	334
Total options	3,414,082	7,184	3,920,235	7,971
Total backlog	**$ 5,351,601**	**10,833**	**6,019,469**	**12,157**

Parts shipment activity during 2018 Q4

Total aftermarket shipments for 2018 Q4 decreased by 8.2% compared to the previous quarter, and decreased by 6.9% compared to 2017 Q4. The lower shipments in 2018 Q4 compared to 2018 Q3 were largely due to lower bid activity and cancellation of the DRA during the period. The win rate for aftermarket during 2018 Q4 was within historical ranges. Aftermarket parts orders from ARBOC are not included in these figures as they are not material.

Outlook

Management's outlook for the heavy-duty transit bus market remains healthy, while private motor coach is expected to continue to experience some headwinds. Overall, demand for low-floor cutaway and medium-duty buses is encouraging.

NFI Parts continues to focus on numerous strategic initiatives to counter adverse market pressures and competitive intensity. These initiatives include additional focus on vendor managed inventory ("VMI") programs, an enhanced product offering, and capitalizing on the implementation of a common IT platform across the aftermarket business. During Fiscal 2018, NFI secured six VMI programs and continues to pursue other VMI opportunities across Canada and the U.S.

Management believes the significant investments the Company has made in new product models, ZEBs, facility upgrades and LEAN processes, parts fabrication, and IT harmonization will allow NFI to defend its leading positions in core markets, improve profit margins and generate free cash flow.

Heavy-Duty Transit

Aging fleets, healthy economic conditions, defined U.S. federal funding and expected customer fleet replacement plans support management's expectation that transit bus procurement activity throughout the U.S. and Canada will remain healthy. Management's view is reinforced by estimated 2018 heavy-duty transit delivery data which shows overall deliveries were 6,504 EUs, an increase of 2.7% from 2017. New Flyer maintained its leading share of 43% of market deliveries in Fiscal 2018 and expects to continue its leading position in Fiscal 2019.

ZEBs continue to be an area of growing focus for New Flyer customers. ZEBs currently represent approximately 5% of New Flyer's total backlog, with significant orders from major cities including: Toronto, Boston, Minneapolis, San Diego, New York, Seattle, Portland, Oakland, and Vancouver. In August of 2018, New Flyer also received Canada's largest ever battery-electric bus order from two Quebec operators. To further strengthen NFI's ZEB offering, in the quarter ended March 31, 2019 ("2019 Q1") the Company launched New Flyer Infrastructure Solutions™, a service aimed at providing safe, reliable, smart and sustainable charging and mobility solutions to public transit customers.

Management's ongoing discussions with several public transit customers throughout the US and Canada suggests there may be an increase in active bids issued in Fiscal 2019, however, individual awards may be smaller in size with fewer options or shorter contract terms. Management believes this is primarily due to transit agencies assessing their fleet replacement plans and their approach to ZEB programs.

Motor Coach

Management estimates that U.S. and Canadian motor coach deliveries declined by 165 units, or 6.7% from 2017 to 2018, but MCI's market share increased by 2% to 45%. In 2019, management anticipates that overall market demand for private motor coaches will also decline slightly, but that MCI can continue to gain share based on its market leading and expanding product portfolio.

Low-floor Cutaway and Medium-duty

Management expects continued growth in the low-floor cutaway and medium-duty bus markets driven by changing population demographics that are anticipated to increase the demand for ARBOC's market leading products. ARBOC's new Spirit of Equess® offering, which has a higher EBITDA/EU contribution than it's low-floor cutaway vehicles, is the first and only medium-duty transit bus to successfully complete the U.S. Federal Transit Administration's mandated Altoona bus testing program. The Equess is now in production and management expects this model to account for 10% to 15% of ARBOC deliveries in Fiscal 2019.

2019 Guidance

Based on NFI's current master production schedule combined with its firm backlog, anticipated option conversions and new orders anticipated to be awarded by customers from procurements, management reaffirms its expected delivery guidance of 4,455 EUs in Fiscal 2019, an increase of 142 EUs, or 3.3% over Fiscal 2018 comprised of the following vehicle types:

Heavy Duty Transit	Motor Coach	Cutaway and Medium-Duty	Total
2,845 EUs	1,065 EUs	545 EUs	4,455 EUs

With the addition of MCI and ARBOC, the Company's annual delivery schedule now has an element of seasonality due to the nature of each market segment and the annual production and vacation schedule of each facility. Overall, management anticipates deliveries will tend to be higher in the quarter ended June 30, 2019 ("2019 Q2") and the quarter ended December 29, 2019 ("2019 Q4") when compared to 2019 Q1 and the quarter ended September 29, 2019 ("2019 Q3"). Within NFI Parts, Management anticipates there to be typical quarterly volatility.

Management advises that 2019 Q1 deliveries will be impacted by non-recurring factors including: adverse winter weather conditions in Minnesota and North Dakota causing New Flyer and MCI to miss a number of production days, new model launches impacting production line efficiencies, and select ARBOC chassis supply disruption - these factors are expected to be resolved throughout 2019.

Daimlers termination of the DRA had an impact on NFI's Fiscal 2018 results, however, management expects the impact to be significantly reduced in Fiscal 2019. Fiscal 2018 was also impacted as a result of startup losses associated with KMG commissioning its 315,000 sq. ft. Shepherdsville, KY facility, which is a strategic long-term investment needed to meet increased U.S. content requirements which take effect in October 2019. Management expects KMG will continue to negatively impact Adjusted EBITDA for the first half of 2019, prior to the facility achieving break-even status in the second half of the year and beginning to provide a positive return on the $30 million investment made to fabricate parts for New Flyer, MCI, ARBOC and NFI Parts.

As a result of NFI's delivery guidance, continued expectations for strong Free Cash Flow generation and lower expected capital expenditures in Fiscal 2019, the Company's board of directors (the "Board") has decided to increase the annual dividend rate to C$1.70 per share which represents an increase of 13.3% from the previously announce annual dividend rate of C$1.50 per share on May 9, 2017. The new annual dividend rate of C$1.70 per share is effective for dividends declared after March 13, 2019, although such distributions are not assured.

SELECTED QUARTERLY AND ANNUAL FINANCIAL AND OPERATING INFORMATION

The following selected unaudited consolidated financial and operating information of the Company has been derived from and should be read in conjunction with the historical Financial Statements of the Company (see footnotes on page 14).

Fiscal Period	Quarter	Revenue	Earnings from Operations	Net earnings	Adjusted EBITDA[(1)]	Earnings per Share	Adjusted Earnings per Share
2018	Q4	$ 662,020	60,570	$ 42,815	$ 79,868	$ 0.69	$ 0.69
	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	**$ 2,519,021**	**$ 237,855**	**$ 159,942**	**$ 315,354**	**$ 2.56**	**$ 2.68**
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	Q4	571	9	—	1,069	1,126	523	463	60
	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**	**(22)**	—	**4,369**	**4,313**	**523**	**463**	**60**
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	Q4	337	19	199	187	368
	Q3	355	19	78	115	337
	Q2	379	(26)	104	102	355
	Q1	343	21	79	64	379
	Total	**343**	**33**	**460**	**468**	**368**
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 Q4 and Fiscal 2018, pre-owned coach revenue was $11.0 million and $46.3 million, respectively.

COMPARISON OF FOURTH QUARTER AND FISCAL 2018 RESULTS

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

	2018 Q4	2017 Q4	Fiscal 2018	Fiscal 2017
Statement of Earnings Data		(restated*)	(restated*)	(restated*)
Revenue				
Canada	$ 75,734	$ 24,628	$ 240,253	$ 154,604
U.S.	500,786	538,494	1,901,614	1,858,023
Manufacturing operations	576,520	563,122	2,141,867	2,012,627
Canada	14,965	18,669	70,662	75,531
U.S.	70,535	72,769	306,492	293,700
Aftermarket operations	85,500	91,438	377,154	369,231
Total revenue	$ 662,020	$ 654,560	$ 2,519,021	$ 2,381,858
Earnings from operations	$ 60,570	$ 71,495	$ 237,855	$ 256,202
Earnings before interest and income taxes	61,405	70,274	238,345	259,588
Net earnings	42,815	76,118	159,942	191,368
Adjusted EBITDA, unaudited(2)				
Transit bus and coach manufacturing operations including realized foreign exchange losses/gains	62,529	72,621	241,699	238,234
Aftermarket operations	17,339	17,867	73,655	79,792
Total Adjusted EBITDA(2)	$ 79,868	$ 90,488	$ 315,354	$ 318,026
Other Data (unaudited)				
Total Deliveries (New and Pre-owned Coaches)				
Canada	160	52	512	334
U.S.	966	1,016	3,801	3,494
New deliveries	1,126	1,068	4,313	3,828
Pre-owned deliveries	187	146	468	410
Total deliveries (EUs)	1,313	1,214	4,781	4,238
Capital expenditures	$ 20,144	$ 21,052	$ 70,991	$ 52,813
New options awarded	$ 33,646	$ 748,286	$ 531,588	$ 1,366,492
New firm orders awarded	$ 357,281	$ 433,997	$ 1,183,543	$ 1,426,022
Exercised options	361,560	117,056	1,000,623	812,875
Total firm orders	$ 718,841	$ 551,053	$ 2,184,166	$ 2,238,897

(Footnotes on page 18)

* 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 not 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 Financial Statements of the Company for the periods indicated.

(Unaudited, U.S. dollars in thousands)	2018 Q4	2017 Q4	Fiscal 2018	Fiscal 2017
Net earnings	42,815	76,118	$ 159,942	191,368
Addback[1]				
Income taxes	7,933	(9,041)	$ 50,711	50,254
Interest expense	10,657	3,197	$ 27,692	17,966
Amortization	18,017	16,007	$ 67,796	57,602
Loss (gain) on disposition of property, plant and equipment	(8)	28	$ 267	(167)
Fair value adjustment for total return swap[7]	5,629	(935)	$ 6,547	(4,719)
Unrealized foreign exchange loss (gain) on non-current monetary items and forward foreign exchange contracts	1,311	867	$ 1,381	(2,060)
Costs associated with assessing strategic and corporate initiatives[4]	—	2,812	$ 137	3,693
Past service costs[9]	—	—	$ 6,482	—
Non-recurring recoveries relating to business acquisition[5]	—	(525)	$ —	(435)
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue[6]	—	266	$ 266	266
Proportion of the total return swap realized[8]	(4,382)	1,021	$ (5,138)	3,964
Equity settled stock-based compensation	34	347	$ 1,409	1,453
Release of provisions related to purchase accounting[11]	(2,138)	—	$ (2,138)	—
Gain on bargain purchase of subsidiary company	—	326	—	(1,159)
Adjusted EBITDA[2]	$ 79,868	$ 90,488	$ 315,354	$ 318,026

(Footnotes on pages 18)

RECONCILIATION OF NET EARNINGS TO ADJUSTED NET EARNINGS

In 2018 Q2, 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 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)	2018 Q4	2017 Q4	Fiscal 2018	Fiscal 2017
Net earnings	$ 42,815	$ 76,118	$ 159,942	$ 191,368
Adjustments, net of tax (10)				
Fair value adjustment of total return swap (7)	4,274	(741)	4,971	(3,738)
Unrealized foreign exchange (gain) loss	995	687	1,049	(1,632)
Portion of the total return swap realized (8)	(3,325)	809	(3,900)	3,140
Costs associated with assessing strategic and corporate initiatives (4)	—	2,227	104	2,925
Non recurring costs (recoveries) relating to business acquisition (5)	—	(416)	—	(345)
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue (6)	—	211	202	211
Equity settled stock-based compensation	26	275	1,070	1,151
Gain on disposition of property, plant and equipment	(6)	22	203	(133)
Gain on bargain purchase option	—	1,175	—	—
Gain on release of provision related to purchase accounting(11)	(1,623)	—	(1,623)	—
Past service costs (9)	—	—	4,922	—
Adjusted Net Earnings	43,156	80,367	166,940	192,947
Earnings per Share (basic)	$ 0.69	$ 1.21	$ 2.56	$ 3.06
Earnings per Share (fully diluted)	$ 0.68	$ 1.20	$ 2.55	$ 3.03
Adjusted Earnings per Share (basic)	$ 0.69	$ 1.28	$ 2.68	$ 3.09
Adjusted Earnings per Share (fully diluted)	$ 0.69	$ 1.26	$ 2.66	$ 3.06

(Footnotes on pages 18)

RECONCILIATION OF CASH FLOW TO ADJUSTED EBITDA

(Unaudited, U.S. dollars in thousands)	2018 Q4	2017 Q4	Fiscal 2018	Fiscal 2017
Net cash generated from operating activities	$ 67,340	$ 7,372	$ 175,144	$ 172,059
Addback[1]				
Changes in non-cash working capital items	1,992	42,728	34,344	7,061
Defined benefit funding	608	5,025	22,241	11,476
Defined benefit expense	(1,755)	(1,338)	(12,333)	(5,150)
Interest paid	6,338	4,673	23,073	18,755
Foreign exchange gain (loss) on cash held in foreign currency	(289)	(52)	194	460
Income taxes paid [3]	12,154	28,506	73,082	105,877
Costs associated with assessing strategic and corporate initiatives[4]	—	2,812	137	3,693
Past service costs[9]	—	—	6,482	—
Non-recurring costs relating to business acquisition[5]	—	(525)	—	(435)
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue [6]	—	266	266	266
Gain on release of provision related to purchase accounting[11]	(2,138)	—	(2,138)	—
Proportion of the total return swap [8]	(4,382)	1,021	(5,138)	3,964
Adjusted EBITDA[2]	$ 79,868	$ 90,488	$ 315,354	$ 318,026

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
11. During 2018 Q4 purchase accounting provisions recorded during the acquisition of MCI were deemed to be no longer needed and were released resulting in an increase to net earnings. The amounts released have been deducted in the calculation of Adjusted EBITDA.

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 under the new Credit Facility 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)	2018 Q4	2017 Q4	Fiscal 2018	Fiscal 2017
Net cash generated from operating activities	$ 67,340	$ 7,372	$ 175,144	$ 172,059
Changes in non-cash working capital items(3)	1,992	42,728	34,344	7,061
Interest paid(3)	6,338	4,673	23,073	18,755
Interest expense(3)	(6,273)	(5,108)	(23,546)	(19,285)
Income taxes paid(3)	12,154	28,506	73,082	105,877
Current income tax expense(3)	(9,495)	(3,959)	(56,263)	(81,116)
Principal portion of finance lease payments	(1,547)	(1,069)	(5,125)	(4,115)
Cash capital expenditures	(20,144)	(21,052)	(70,991)	(52,813)
Proceeds from disposition of property, plant and equipment	10	18	235	526
Costs associated with assessing strategic and corporate initiatives(7)	—	2,812	137	3,693
Non-recurring transitional costs relating to business acquisition(8)	—	(525)	—	(435)
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue (9)	—	266	266	266
Defined benefit funding(4)	608	5,025	22,241	11,476
Defined benefit expense(4)	(1,755)	(1,338)	(12,333)	(5,150)
Past service costs(11)	—	—	6,482	—
Gain received on total return swap settlement	—	—	—	—
Proportion of the total return swap(10)	(4,382)	1,021	(5,138)	3,964
Gain on release of provision related to purchase accounting(12)	(2,138)	—	(2,138)	—
Foreign exchange gain (loss) on cash held in foreign currency(5)	(289)	(52)	194	460
Free Cash Flow (US$)(1)	42,419	59,318	159,664	161,223
U.S. exchange rate(2)	1.3638	1.2545	1.3183	1.2835
Free Cash Flow (C$)(1)	**57,851**	**74,414**	**210,485**	**206,922**
Free Cash Flow per Share (C$)(6)	0.9302	0.4125	3.3733	3.3114
Declared dividends on Shares (C$)	**22,890**	**20,452**	**90,343**	**76,082**
Declared dividends per Share (C$)(6)	$ 0.3680	$ 0.3250	$ 1.4479	$ 1.2175

(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$) are determined by dividing Free Cash Flow by the total number of all issued and outstanding Shares using the weighted average over the period. The weighted average number of Shares outstanding for 2018 Q4 was 62,193,409 and 62,396,962 for Fiscal 2018. The weighted average number of Shares outstanding for 2017 Q4 was 62,936,167 and 62,488,370 for Fiscal 2017. Per Share calculations for declared dividends (C$) 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 negatively 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.

(12) During the fourth quarter purchase accounting provisions recorded during the acquisition of MCI were deemed to be no longer needed and were released resulting in an increase to net earnings. The amounts released have been deducted in the calculation of Free Cash Flow.

Capital Allocation Policy

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

Maintaining Financial Flexibility

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

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

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

The liquidity position of $355.4 million as at December 30, 2018 is comprised of available cash of $10.8 million and $344.6 million available under the new Credit Facility as compared to a liquidity position of $222.3 million at December 30, 2017. The increase in liquidity primarily relates to the new Credit Facility which increased the amount available to draw by $175 million partially offset by capital returned to shareholders through dividends and the repurchase of Shares under the NCIB and capital expenditures. Changes in non-cash working capital are primarily a result of seasonality and are expected to be temporary in nature. Management believes these funds, together with Share and debt issuances, other borrowings capacity and the cash generated from the Company's operating activities, will provide the Company with sufficient liquidity and capital resources to meet its current financial obligations as they come due, as well as provide funds for its financing requirements, capital expenditures, dividend payments and other operational needs for the foreseeable future.

Within the capital allocation policy, management has targeted to maintain leverage between 2 times and 2.5 times Adjusted EBITDA. The Company however, would increase leverage beyond this range to fund accretive acquisitions that are capable of reducing leverage through earnings. This was the case in 2013 when the Company acquired NABI-Optima Holdings Inc. (NABI) and again in 2015 when the Company acquired MCI. Leverage is defined as debt (net of cash) divided by Adjusted EBITDA.

There are certain financial covenants under the Credit Facility that have to be maintained. These financial covenants included an interest coverage ratio and a total leverage ratio. The total leverage ratio under the Credit Facility is 3.75 and increases to 4.25 for one year following a material acquisition. At December 30, 2018, the Company was in compliance with the ratios. Under the fifth amended and restated credit agreement (the "Prior Credit Agreement"), which was extinguished on October 25, 2018, the total leverage ratio reduced to less than 3.50 beginning January 1, 2018. The results of the financial covenant tests under the Prior Credit Agreement as of such date are as follows:

	December 30, 2018	December 31, 2017
Total Leverage Ratio (must be less than 3.75)	2.09	1.84
Interest Coverage Ratio (must be greater than 3.00)	13.39	17.15

Business Investment

The Company plans to invest in the current business for 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 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$57.9 million in 2018 Q4 compared to declared dividends of C$22.9 million during this period. For Fiscal 2018, Free Cash Flow was C$210.5 million compared to declared dividends of C$90.3 million. This resulted in a payout ratio of 39.6% and 42.9% in 2018 Q4 and Fiscal 2018, respectively, compared to 27.6% and 36.8% in 2017 Q4 and Fiscal 2017, respectively.

As a result of NFI's delivery guidance, continued expectations for strong Free Cash Flow generation and lower expected capital expenditures in Fiscal 2019, on March 13, 2019, the Board approved an annual dividend rate increase to C$1.70 per Share from the prior annual rate of C$1.50 per share, effective for dividends declared subsequent to March 13, 2019. This represents an annual dividend rate increase of 13.3% and the Board and management believe that this dividend rate has been established at a sustainable level. The Board expects to maintain dividends at this rate on a quarterly basis, although such distributions are not assured.

On May 9, 2018 the Board approved an annual dividend rate increase of 15.4% 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 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 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. On January 17, 2019 the Company amended the NCIB. Pursuant to the amended NCIB, the Company is permitted to repurchase for cancellation up to 5,549,465 Shares, representing approximately 10% of the outstanding public float of Shares on June 4, 2018. The Company was permitted to repurchase Shares commencing on June 14, 2018 up to 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. The Company has a policy to not purchase Shares during a trading blackout period. During Fiscal 2018 the Company repurchased 2,153,275 Shares (of which 833,075 Shares were settled and canceled after December 30, 2018) at an average price of C $41.39 per Share for a total repurchase cost of C$89.12 million. Shares settled after December 30, 2018 totaled C$29.1 million.

Total Capital Distributions to Shareholders (U.S. dollars in millions)	**2018 Q4**	**2017 Q4**	**Fiscal 2018**	**Fiscal 2017**
Dividends paid	$ 18.1	$ 16.4	$ 68.2	$ 54.3
NCIB Share repurchase	36.9	—	66.5	—
Total	$ 55.0	$ 16.4	$ 134.7	$ 54.3

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)
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 Q4 results, U.S. dollars in thousands)	2018 Q4	2017 Q4 ("restated")	Fiscal 2018	Fiscal 2017 ("restated")
Manufacturing Revenue	576,520	563,122	2,141,867	2,012,627
Aftermarket Revenue	85,500	91,438	377,154	369,231
Total Revenue	$ 662,020	$ 654,560	$ 2,519,021	$ 2,381,858
Earnings from Operations	$ 60,570	$ 71,495	$ 237,855	$ 256,202
Earnings before interest and income taxes	61,405	70,274	238,345	259,588
Earnings before income tax expense	50,748	67,077	210,653	241,622
Net earnings for the period	42,815	76,118	159,942	191,368

Revenue

Manufacturing revenue for 2018 Q4 increased by $13.3 million, or 2.4% compared to 2017 Q4. Transit bus revenues increased by $21.8 million primarily due to higher average selling prices in the 2018 Q4 compared to 2017 Q4. Also contributing to the increase is the full-quarter contribution from ARBOC in 2018 Q4 compared to one-month in 2017 Q4 which resulted in a $7.1 million increase in revenues. These increases were partially offset by lower revenues related to new and pre-owned coaches, primarily due to lower average selling prices.

Manufacturing revenue for Fiscal 2018 increased by $129.2 million, or 6.4% compared to Fiscal 2017. Transit bus increases in revenues of $116.0 million are primarily due to higher selling prices and volume increases in Fiscal 2018 compared to Fiscal 2017. The full-year contribution from ARBOC in Fiscal 2018 compared to one-month in Fiscal 2017 resulted in a $39.5 million increase in revenues. The FRP business also contributed $11.6 million to the revenue increase, primarily as a result of the acquisition of Sintex-Wausaukee Composites Inc. and Carlson Engineered Composites Inc. in 2017. These increases were partially offset by decreases of $33.5 million and $4.2 million from new coach and pre-owned coach businesses. Coach volumes were impacted by management's estimate of a 6.7% decline in motor coach market volume, partially offset by a 2.0% increase in MCI's market share. Lower average selling prices further contributed to the decline. The termination of the DRA with Daimler for the sale of Setra motor coaches also contributed to the decrease in new coach revenue by $7.7 million.

Revenue from aftermarket operations in 2018 Q4 decreased by $5.9 million, or 6.5% compared to 2017 Q4. The decrease is primarily due to the impact of the termination of the DRA of $1.2 million and lower volumes and margins. Fiscal 2018 revenue increased by $7.9 million, or 2.1%, compared to Fiscal 2017. The Fiscal 2018 increase is primarily due to increased volumes during the year and the full-year impact of ARBOC parts sales in Fiscal 2018. These increases are partially offset by the impact of the cancellation of the DRA of $2.7 million.

Cost of sales

(Unaudited Q4 results, U.S. dollars in thousands)	2018 Q4	2017 Q4	Fiscal 2018	Fiscal 2017 ("restated")
Total Cost of Sales	$ 543,755	$ 527,941	2,064,813	1,930,465

The consolidated cost of sales for 2018 Q4 and Fiscal 2018 increased by $15.8 million or 3.0% and $134.3 million or 6.9% compared to 2017 Q4 and Fiscal 2017, respectively. The increases are consistent with increased revenues for these respective periods.

Cost of sales from manufacturing operations in 2018 Q4 were $483.4 million (83.9% of manufacturing operations revenue) compared to $462.7 million (82.2% of manufacturing operations revenue), an increase of $20.7 million or 4.5% compared to 2017 Q4. Pricing pressures related to the coach business, the loss of the DRA, and lower production efficiency related to the start-up of the Shepherdsville facility have contributed to the increase of cost of sales as a percentage of manufacturing operations revenue. Cost of sales from manufacturing operations in Fiscal 2018 were $1.79 billion (83.8% of manufacturing operations revenue) compared to $1.67 billion (83.1% of manufacturing operations revenue) an increase of 7.2%. The same factors that contributed to the changes in 2018 Q4 contributed to the year-to-date changes.

Cost of sales from aftermarket operations in 2018 Q4 were $60.3 million (70.6% of aftermarket revenue) compared to $65.3 million (71.4% of aftermarket revenue) in 2017 Q4, a decrease of $5.0 million or 7.6%. Cost of sales from aftermarket operations in Fiscal 2018 were $270.3 million (71.7% of aftermarket revenue) compared to $257.0 million in Fiscal 2017 (69.6% of aftermarket revenue), an increase of $13.2 million or 5.1%. Changes in sales mix have resulted in cost of sales as a percentage of revenues to increase in both the 2018 Q4 and year-to-date.

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

The consolidated SG&A for 2018 Q4 of $55.4 million (8.4% of consolidated revenue) decreased by $0.2 million or 0.5% compared $55.6 million (8.5% of consolidated revenue) in 2017 Q4. The consolidated SG&A for Fiscal 2018 of $210.6 million (8.3% of consolidated revenue) increased $14.5 million or 7.4% compared to $196.0 million (8.2% of consolidated revenue) in Fiscal 2017. The increase in Fiscal 2018 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 FRP components operations.

Realized foreign exchange loss/gain

During 2018 Q4, the Company recorded a realized foreign exchange loss of $2.4 million compared to a gain of $0.5 million in 2017 Q4. The Fiscal 2018 realized foreign exchange loss is $5.8 million, compared to a gain of $0.8 during Fiscal 2017. 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 the spot rates at settlement were the primary reason for the losses.

Earnings from operations

Consolidated earnings from operations in 2018 Q4 were $60.6 million (9.1% of consolidated revenue) compared to $71.5 million (10.9% of consolidated revenue) in 2017 Q4, a decrease of $10.9 million or 15.3%. Fiscal 2018 consolidated earnings from operations were $237.9 million (9.4% of revenue) compared to $256.2 million (10.8% of consolidated revenue) in Fiscal 2017, a decrease of $18.3 million or 7.2%.

Earnings from operations related to manufacturing operations in 2018 Q4 were $45.2 million (7.8% of manufacturing revenue) compared to $55.5 million (9.9% of manufacturing revenue) in 2017 Q4, a decrease of $10.3 million or 18.6%. The decrease is primarily due lower new coach and transit bus volumes and continued pricing pressures on new and pre-owned coach sales. Losses related to the startup of the Shepherdsville facility of $6.6 million further contributed to the decrease. Higher transit bus margins partially offset the decreases noted above. Earnings from operations in Fiscal 2018 were $171.5 million (8.0% of manufacturing revenues) compared to $183.9 million in Fiscal 2017 (9.1% of manufacturing revenues) a decrease of $12.4 million or 6.7%. The same factors that contributed to the results in 2018 Q4 contributed to the year-to-date changes.

Earnings from operations related to aftermarket operations in 2018 Q4 were $15.4 million (18.0% of aftermarket revenue) compared to $16.0 million (17.5% of aftermarket revenue), a decrease of $0.6 million or 3.8%. Earnings from operations in Fiscal 2018 were $66.3 million (17.6% of aftermarket revenues) compared to $72.3 million in Fiscal 2017 (19.6% of aftermarket revenues), a decrease of $6.0 million or 8.3%.

Unrealized foreign exchange gain/loss

The Company has recognized a net unrealized foreign exchange gain/loss consisting of the following:

(Unaudited Q4 results, U.S. dollars in thousands)	2018 Q4	2017 Q4	Fiscal 2018	Fiscal 2017
Unrealized (gain) loss on forward foreign exchanges contracts	$ 2,342	$ 878	$ 2,974	$ (2,768)
Unrealized (gain) loss on other long-term monetary assets/liabilities	(1,031)	(11)	(1,593)	708
	$ 1,311	$ 867	$ 1,381	$ (2,060)

At December 30, 2018, the Company had $57 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 January 2019 to June 2019. The related liability of $1.5 million (December 31, 2017: $1.4 million asset) is recorded on the consolidated statements of financial position as a current derivative financial instruments liability and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the consolidated statements of net earnings and total comprehensive income.

Earnings before interest and income taxes ("EBIT")

In 2018 Q4, the Company recorded EBIT of $61.4 million compared to EBIT of $70.3 million in 2017 Q4. Similarly, the Company recorded Fiscal 2018 EBIT of $238.3 million compared to EBIT of $259.6 million in Fiscal 2017. EBIT has been impacted by non-cash and non-recurring items as follows:

(Unaudited Q4 results, U.S. dollars in thousands)	2018 Q4	2017 Q4	Fiscal 2018	Fiscal 2017
Non-cash and non-recurring charges:				
Costs associated with assessing strategic and corporate initiatives	$ —	$ 2,812	$ 137	$ 3,693
Unrealized foreign exchange (gain) loss	1,311	867	1,381	(2,060)
Equity settled stock-based compensation	34	347	1,409	1,453
Loss (gain) on disposition of property, plant and equipment	(8)	28	267	(167)
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue	—	266	266	266
Fair value adjustment of total return swap	5,629	(935)	6,547	(4,719)
Past service costs	—	—	6,482	—
Non-recurring costs related to business acquisition	—	(525)	—	(435)
Gain on bargain purchase of subsidiary company	—	326	—	(1,159)
Amortization	18,017	16,007	67,796	57,602
Total non-cash and non-recurring charges:	$ 24,983	$ 19,193	$ 84,285	$ 54,474

Interest and finance costs

The interest and finance costs for 2018 Q4 of $10.7 million increased by $7.5 million when compared to $3.2 million in 2017 Q4. The increase is primarily due to a $2.3 million loss on the interest rate swap in 2018 Q4 compared to a gain of $2.3 million in 2017 Q4 and the impact of recognizing unamortized transaction costs related to the extinguished Prior Credit Agreement in the amount of $1.9 million in 2018 Q4. Interest and finance costs for Fiscal 2018 of $27.7 million increased by $9.7 million when compared to $18.0 million in Fiscal 2017. The increase is primarily due to higher interest on long-term debt of $3.7 million due to higher average amounts drawn on the Prior Credit Agreement, and after its termination, under the new Credit Facility, throughout Fiscal 2018. The higher amounts drawn are primarily as a result of strategic initiatives including the acquisition of ARBOC and repurchases under the Company's NCIB. The recognition of unamortized transaction costs related to the termination of the Prior Credit Agreement which negatively impacted the 2018 Q4 amount and also negatively impacted Fiscal 2018.

Earnings before income taxes ("EBT")

EBT for 2018 Q4 of $50.7 million decreased compared to EBT of $67.1 million in 2017 Q4 and the EBT for Fiscal 2018 of $210.7 million decreased compared to EBT of $241.6 million in Fiscal 2017. The primary drivers of the changes to EBT are addressed in the Earnings from Operations, EBIT, and Interest and finance costs sections above.

Income tax expense

The income tax expense for 2018 Q4 was $7.9 million, consisting of $9.5 million of current income tax expense offset by $1.6 million of deferred income tax recovery. In comparison, the income tax recovery for 2017 Q4 was $9.0 million, consisting of $4.0 million of current income tax expense and $13.0 million of deferred income tax recovery. The income tax expense for Fiscal 2018 was $50.7 million, consisting of $56.3 million of current income tax expense offset by $5.6 million of deferred income tax recovery. In comparison, the income tax expense for Fiscal 2017 was $50.2 million, consisting of $81.1 million of current income tax expense and $30.9 million of deferred income tax recovery.

The ETR for 2018 Q4 of 15.6% increased compared to the effective tax rate of negative 13.5% in 2017 Q4. The ETR for Fiscal 2018 of 24.1% increased compared to the ETR of 20.8% in Fiscal 2017. The ETR for 2018 Q4 was lower than expected primarily due to the impact of foreign exchange in the quarter while the ETR for 2017 Q4 was significantly lower due to the impact of the US Federal tax rate reduction (introduced as part of U.S. tax reform enacted on December 22, 2017) on the Company's deferred tax balances. The ETR for Fiscal 2018 and 2017 were similarly impacted by these factors.

Net earnings

The Company reported net earnings of $42.8 million in 2018 Q4, a decrease of 43.8% compared to net earnings of $76.1 million in 2017 Q4. The Fiscal 2018 net earnings of $159.9 million, decreased by 16.5% compared to net earnings of $191.4 million in Fiscal 2017.

Net earnings (Unaudited U.S. dollars in millions)	**2018 Q4**	**2017 Q4**	**Fiscal 2018**	**Fiscal 2017**
Earnings from operations	$ 60.6	$ 71.5	$ 237.8	$ 256.2
Non-cash gain (loss)	0.8	(1.2)	0.5	3.5
Interest expense	(10.7)	(3.2)	(27.7)	(18.0)
Income tax expense	(7.9)	9.0	(50.7)	(50.3)
Net earnings	$ 42.8	$ 76.1	$ 159.9	$ 191.4
Net earnings per Share (basic)	$ 0.69	$ 1.21	$ 2.56	$ 3.06
Net earnings per Share (fully diluted)	$ 0.68	$ 1.20	$ 2.55	$ 3.03

The Company's net earnings per Share in 2018 Q4 of $0.69 decreased from net earnings per Share of $1.21 generated in 2017 Q4. The Company's net earnings per Share in Fiscal 2018 of $2.56 decreased from $3.06 generated in Fiscal 2017. Net earnings were lower in 2018 Q4 and Fiscal 2018 for the reasons discussed throughout the Results of Operation section in this MD&A, which decreased earnings per share in 2018 Q4 and Fiscal 2018 compared to 2017 Q4 and Fiscal 2017. Partially offsetting the impact of these decreases in net earnings per share were lower weighted average common Shares as disclosed in note 14 to the consolidated financial statements.

Cash Flow

The cash flows of the Company are summarized as follows:

(Unaudited Quarterly Results, U.S. dollars in thousands)	**2018 Q4**	**2017 Q4**	**Fiscal 2018**	**Fiscal 2017**
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	$ 87,824	$ 83,279	305,643	303,752
Interest paid	(6,338)	(4,673)	(23,073)	(18,755)
Income taxes paid	(12,154)	(28,506)	(73,082)	(105,877)
Net cash earnings	69,332	50,100	209,488	179,120
Cash flow used in changes in working capital	(1,992)	(42,728)	(34,344)	(7,061)
Cash flow generated from operating activities	67,340	7,372	175,144	172,059
Cash flow used in financing activities	(37,699)	84,713	(83,774)	(31,382)
Cash flow used in investing activities	(20,166)	(117,385)	(70,806)	(164,122)

Cash flows from operating activities

The 2018 Q4 net operating cash inflow of $67.3 million is comprised of $69.3 million of net cash earnings offset by a decrease in non-cash working capital of $2.0 million. The 2017 Q4 net operating cash inflow of $7.4 million is comprised of $50.1 million of net cash earnings and a decrease in cash used for working capital of $42.7 million. The Fiscal 2018 net operation cash flow of $175.1 million is comprised of $209.5 million net cash earnings and an increase in cash used in for working capital of $34.3 million. The Fiscal 2017 net operation cash flow of $172.1 million resulting from $179.1 million net cash earnings and an increase in cash used in changes in working capital of $7.1 million.

Cash flow from financing activities

The cash outflows during 2018 Q4 and Fiscal 2018 primarily related to proceeds from long-term debt related to the new Credit Facility and capital returned to shareholders through dividends and Shares repurchased under the NCIB.

Cash flow from investing activities

(Unaudited Quarterly Results, U.S. dollars in thousands)	**2018 Q4**	**2017 Q4**	**Fiscal 2018**	**Fiscal 2017**
Acquisition of intangible assets	$ (32)	$ (126)	$ (50)	$ (193)
Proceeds from disposition of property, plant and equipment	10	18	235	526
Net cash used in acquisitions	—	(96,225)	—	(111,642)
Acquisition of property, plant and equipment	(20,144)	(21,052)	(70,991)	(52,813)
Net cash earnings	$ (20,166)	$ (117,385)	$ (70,806)	$ (164,122)

2018 Q4 investing activities are significantly lower than 2017 Q4 primarily due to the impact of the acquisition of ARBOC in 2017 as well as the impact of higher capital purchases Fiscal 2018 compared to Fiscal 2017. There were no acquisitions in 2018 Q4. Fiscal 2018 investing activities were significantly lower than Fiscal 2017 for the same reasons noted in the 2018 Q4 to 2017 Q4 comparison above as well as the acquisitions of Sintex-Wausaukee Composites Inc. and Carlson Engineered Composites Inc. which occurred prior to 2017 Q4.

Interest rate risk

On January 20, 2016, the Company entered into a $482,000 interest rate swap designed to hedge floating rate exposure on the $482,000 Term Credit Facility of the Prior Credit Agreement. The interest rate swap fixes the interest rate at 1.154% plus the applicable interest margin. On February 13, 2019, the Company blended the unrealized gain from the existing swap into a $600,000 notional interest rate swap designed to hedge floating rate exposure on the Company's Credit Facility. The interest rate swap fixes the interest rate at 2.27% plus applicable margin until October 2023.

The fair value of the interest rate swap asset of $6.6 million at Fiscal 2018 (Fiscal 2017: $7.4 million) was recorded on the 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 public 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, 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 the operators' own capital budgets and funded by their own 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:

	December 30, 2018	December 31, 2017
Current, including holdbacks	$ 358,729	$ 361,805
Past due amounts but not impaired		
1 – 60 days	24,153	22,306
Greater than 60 days	4,830	2,878
Less: allowance for doubtful accounts	(226)	(522)
Total accounts receivables, net	$ 387,486	$ 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 describes the Company's maturity analysis of the undiscounted cash flows of certain non-current financial liabilities and leases as at December 30, 2018:

U.S. dollars in thousands	Total	2019	2020	2021	2022	2023	Post 2023
Other long-term liabilities	1,008	1,008	—	—	—	—	—
Finance leases	29,363	8,803	7,204	5,990	4,358	3,008	—
Accrued benefit liability	9,266	8,967	299	—	—	—	—
Operating leases	70,690	10,759	9,519	9,465	9,055	8,714	23,178
	$ 110,327	$ 29,537	$ 17,022	$ 15,455	$ 13,413	$ 11,722	$ 23,178

As at December 30, 2018, outstanding surety bonds guaranteed by the Company amounted to $394.4 million, representing an increase compared to $327.3 million at December 31, 2017. The estimated maturity dates of the surety bonds outstanding at December 30, 2018 range from December 2018 to August 2020. Management believes that adequate facilities exist to meet projected surety requirements.

The Company has not recorded a liability under these guarantees as management believes that no material events of default exist under any applicable contracts with customers.

Under the Credit Facility, the Company had established a letter of credit sub-facility of $100.0 million. As at December 30, 2018, letters of credit amounting to $13.8 million (December 31, 2017: $8.8 million) remained outstanding under the letter of credit facility as security for the contractual obligations of the Company.

The Company does not have any off-balance sheet arrangement or any material capital asset commitments at December 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 and December 31, 2018), 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)	(330,077)	—	December 28, 2022	C$13.45	C$1.83
December 28, 2015	221,888	(12,832)	—	(153,584)	55,472	December 28, 2023	C$26.75	C$4.21
September 8, 2016	2,171	—	—	(1,629)	542	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	152,833	—	—	—	152,833	January 2, 2026	C$54.00	C$9.53
	2,130,701	(1,163,396)	(20,999)	(623,897)	322,409		C$27.02	

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	152,833	C$54.00	151,419	C$40.84
Expired during the period	—	—	—	—
Exercised during the period	(185,860)	C$11.91	(347,185)	C$11.31
Balance at end of period	946,306	C$27.02	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 $162 thousand of director restricted Share units ("Director RSUs") in 2018 Q4. Of these Director RSUs issued, approximately $93 thousand were exercised and exchanged for 2,909 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 not be 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 in 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 statements of financial position accounts as described 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:

In January 2016, the IASB issued IFRS 16, Leases, with an effective date of January 1, 2019, which introduced new guidance for identifying leases as well as the accounting, measurement and presentation of leases by the lessee. The lessee now recognizes a liability for the future lease payments to be made for each lease. A right-of-use asset is also recognized and amortized over the useful life. As a result, the previous distinction between operating and finance leases no longer applies. The new standard will retain many key aspects of the current lessor accounting model. With respect to first time application of IFRS 16, the Company can choose to apply the standard using the full retrospective approach or modified retrospective approach The Company plans on using the modified retrospective approach.

The Company will adopt the standard on its effective date. The Company is in the process of finalizing its transition approach. The right-of-use assets and lease liability will be presented separately on the balance sheet. The Company anticipates the adoption of the standard will result in increases to assets of approximately $109 million and liabilities of approximately $109 million on the consolidated statements of financial position. The Company does not anticipate that there will be a material impact in the consolidated statements of earnings and total comprehensive income. The Company's lease payments in 2018 were approximately $10.2 million. These payments will no longer be included within EBITDA, as the impact of leases will be reported through the depreciation of right-of-use assets and finance charges related to lease liabilities.

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 30, 2018 in accordance with the criteria established in COSO 2013, and concluded that the Company's ICFR are effective.

Management believes there have been no changes in the Company's ICFR during 2018 Q4 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's CEO and CFO have concluded that disclosure controls and procedures as at December 30, 2018 were effective.

Consolidated Financial Statements of

NFI GROUP INC.

(FORMERLY NEW FLYER INDUSTRIES INC.)

December 30, 2018

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Independent Auditor's Report

To the Shareholders of NFI Group Inc.

Opinion
We have audited the consolidated financial statements of NFI Group Inc. (the "Company"), which comprise the consolidated statements of financial position at December 30, 2018 and December 31, 2017, and the consolidated statements of net earnings and total comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 30, 2018 and December 31, 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information
Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Haik (Haig) Vanlian.

Deloitte LLP

Chartered Professional Accountants
Winnipeg, Manitoba
March 13, 2019

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

CONSOLIDATED STATEMENTS OF NET EARNINGS AND TOTAL COMPREHENSIVE INCOME

52 Weeks ended December 30, 2018 ("Fiscal 2018") and 52 Weeks ended December 31, 2017 ("Fiscal 2017")

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

	Fiscal 2018	Fiscal 2017
Revenue (note 19)	$ 2,519,021	$ 2,381,858
Cost of sales (note 4)	2,064,813	1,930,465
Gross profit	454,208	451,393
Sales, general and administration costs and other operating expenses	210,560	195,957
Foreign exchange loss (gain)	5,793	(766)
Earnings from operations	237,855	256,202
Gain on bargain purchase of subsidiary company	—	1,159
Gain on release of provision	2,138	—
Gain (loss) on disposition of property, plant and equipment	(267)	167
Unrealized foreign exchange gain (loss) on non-current monetary items	(1,381)	2,060
Earnings before interest and income taxes	238,345	259,588
Interest and finance costs		
Interest on long-term debt and convertible debentures	20,518	16,794
Accretion in carrying value of long-term debt and convertible debentures (note 10)	3,316	1,594
Other interest and bank charges	3,028	2,491
Fair market value loss (gain) on interest rate swap	830	(2,913)
	27,692	17,966
Earnings before income tax expense	210,653	241,622
Income tax expense (note 7)		
Current income taxes	56,263	81,116
Deferred income taxes recovered	(5,552)	(30,862)
	50,711	50,254
Net earnings for the year	$ 159,942	$ 191,368
Other comprehensive income (loss)		
Actuarial income (loss) on defined benefit pension plan - this item will not be reclassified subsequently to profit or loss	3,170	(6,842)
Total comprehensive income for the year	$ 163,112	184,526
Net earnings per share (basic) (note 14)	$ 2.56	$ 3.06
Net earnings per share (diluted) (note 14)	$ 2.55	$ 3.03

The accompanying notes are an integral part of the audited consolidated financial statements.

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

	December 30, 2018	December 31, 2017
Assets		
Current		
Cash	$ 10,820	$ —
Accounts receivable (note 3,18 c)	387,486	386,467
Income tax receivable	34,115	24,911
Inventories (note 4)	424,685	359,482
Derivative financial instruments (note 18 b,c)	—	8,217
Prepaid expenses and deposits	10,434	15,253
	867,540	794,330
Property, plant and equipment (note 5, 19)	247,943	186,873
Derivative financial instruments (note 18 b,c)	6,592	7,422
Goodwill and intangible assets (note 6)	951,010	985,962
Other long term asset	1,052	—
	$ 2,074,137	$ 1,974,587
Liabilities		
Current		
Bank indebtedness	$ —	$ 9,938
Accounts payable and accrued liabilities	366,517	319,436
Income tax payable	—	7,328
Derivative financial instruments (note 18 b,c)	1,542	—
Current portion of long-term liabilities (note 25)	80,310	86,483
	448,369	423,185
Accrued benefit liability (note 16)	5,265	19,804
Obligations under finance leases (note 8)	19,087	9,400
Deferred compensation obligation (note 9)	4,979	10,083
Deferred revenue (note 12)	10,443	8,697
Other long-term liabilities	1,008	1,107
Provisions (note 23)	64,946	65,266
Deferred tax liabilities (note 7)	83,121	88,453
Long-term debt (note 10)	639,432	580,763
	$ 1,276,650	$ 1,206,758
Commitments and contingencies (note 21)		
Shareholders' equity		
Share capital (note 13)	654,307	665,602
Stock option and restricted share unit reserve (note 11)	5,796	4,724
Accumulated other comprehensive loss	(6,706)	(9,876)
Treasury shares (note 13)	(8,835)	—
Retained earnings	152,925	107,379
	$ 797,487	$ 767,829
	$ 2,074,137	$ 1,974,587

The accompanying notes are an integral part of the audited consolidated financial statements.

Approved and authorized by the board of directors on March 13, 2019.

"Hon. Brian V. Tobin, Director"

"Phyllis Cochran, Director"

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended December 30, 2018

(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	—	—	—	—	—	191,368	191,368
Other comprehensive loss	—	—	—	(6,842)	—	—	(6,842)
Dividends declared on common shares	—	—	—	—	—	(59,524)	(59,524)
Share-based compensation, net of deferred income taxes	—	—	1,824	—	—	—	1,824
Shares issued	3,547	—	(614)	—	—	—	2,933
Conversion of debentures to common shares	8,384	(481)	—	—	—	—	7,903
Balance, December 31, 2017	**$ 665,602**	**$ —**	**$ 4,724**	**$ (9,876)**	**$ 0**	**$ 107,379**	**$ 767,829**
Net earnings	—	—	—	—	—	$ 159,942	159,942
Other comprehensive income	—	—	—	3,170	—	—	3,170
Dividends declared on common shares	—	—	—	—	—	(68,646)	(68,646)
Repurchase and cancellation of common shares	(13,973)	—	—	—	—	(32,234)	(46,207)
Change in share purchase commitment	—	—	—	—	(8,835)	(13,516)	(22,351)
Share-based compensation, net of deferred income taxes	—	—	2,061	—	—	—	2,061
Shares issued	2,678	—	(989)	—	—	—	1,689
Balance, December 30, 2018	**$ 654,307**	**$ —**	**$ 5,796**	**$ (6,706)**	**$ (8,835)**	**$ 152,925**	**$ 797,487**

The accompanying notes are an integral part of the audited consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 30, 2018

(in thousands of U.S. dollars)

	Fiscal 2018	Fiscal 2017
Operating activities		
Net earnings for the period	$ 159,942	$ 191,368
Income tax expense	50,711	50,254
Depreciation of plant and equipment	32,840	27,906
Amortization of intangible assets	34,956	29,696
Share-based compensation	1,409	1,453
Interest and finance costs recognized in profit or loss	27,692	17,966
Fair value adjustment for total return swap	6,547	(4,719)
Unrealized foreign exchange loss (gain) on non-current monetary items	1,381	(2,060)
Foreign exchange gain on cash held in foreign currency	(194)	(460)
Gain on bargain purchase of subsidiary company	—	(1,159)
Loss (gain) on disposition of property, plant and equipment	267	(167)
Defined benefit expense	12,333	5,150
Defined benefit funding	(22,241)	(11,476)
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	305,643	303,752
Changes in non-cash working capital items (note 15)	(34,344)	(7,061)
Cash generated from operating activities before interest and income taxes paid	271,299	296,691
Interest paid	(23,073)	(18,755)
Income taxes paid	(73,082)	(105,877)
Net cash generated from operating activities	175,144	172,059
Financing activities		
Debt issue costs	(2,246)	—
Repayment of obligations under finance leases	(5,125)	(4,115)
Proceeds from long-term debt	57,600	25,000
Share issuance	1,689	3,021
Repayment of convertible debentures	—	(141)
Repayment of other long-term liabilities	(1,000)	(1,000)
Repurchase of shares	(66,522)	—
Dividends paid	(68,170)	(54,147)
Net cash used in financing activities	(83,774)	(31,382)
Investing activities		
Acquisition of intangible assets	(50)	(193)
Proceeds from disposition of property, plant and equipment	235	526
Net cash used in acquisitions (note 1.1)	—	(111,642)
Acquisition of property, plant and equipment	(70,991)	(52,813)
Net cash used in investing activities	(70,806)	(164,122)
Effect of foreign exchange rate on cash	194	460
Increase (decrease) in cash	20,758	(22,985)
(Bank indebtedness) cash — beginning of period	(9,938)	13,047
Cash (Bank indebtedness) — end of period	$ 10,820	$ (9,938)

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

(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 audited consolidated financial statements (the "Statements") were approved by the Company's board of directors (the "Board") on March 13, 2019.

1.1 Acquisitions

During 2017, NFI completed three acquisitions using existing cash and proceeds from the revolving portion of the Company's senior secured credit facility. The $111,642 of net cash used in the acquisitions is made up as follows:

		Cash Used
Acquisition of Carlson Engineered Composites Inc.	$	11,439
Acquisition of Sintex-Wausaukee Composites Inc.		3,579
Acquisition of ARBOC Specialty Vehicles, LLC		96,624
Net cash used in acquisitions	$	111,642

Acquisition of Carlson Engineered Composites Inc.

On June 1, 2017, the Company acquired 100% of the voting equity interest in Carlson Engineered Composites Inc. ("Carlson") and the assets of Carlson's U.S. affiliated companies in Minnesota and Alabama. Carlson, a privately-owned company headquartered in Winnipeg, Manitoba, manufactured fiberglass reinforced polymer components primarily to original equipment manufacturers of transportation vehicles and agricultural equipment. 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 June 1, 2017. 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 to goodwill of $826. The purchase price allocation was finalized on October 1, 2017.

	Original	Adjustments	Revised
Cash purchase price	$ 13,840	$ —	$ 13,840
Less: working capital adjustment	—	(18)	(18)
Less: cash acquired	(2,383)	—	(2,383)
Net cash used in acquisition	11,457	(18)	11,439
Net assets acquired			
Accounts receivable	2,140	—	2,140
Inventories	1,361	—	1,361
Prepaid expenses and deposits	224	—	224
Property, plant and equipment	6,815	—	6,815
Accounts payable and accrued liabilities	(3,135)	—	(3,135)
Income taxes payable	(352)	246	(106)
Obligations under finance leases	(1,185)	—	(1,185)
Long-term debt	(562)	562	—
Deferred tax liabilities	(889)	—	(889)
Net tangible assets acquired	4,417	808	5,225
Patent and licenses	2,000	—	2,000
Identifiable intangible assets acquired	2,000	—	2,000
Goodwill acquired	$ 5,040	$ (826)	$ 4,214

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

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

Acquisition of the Assets of Sintex-Wausaukee Composites Inc.

On September 25, 2017, the Company acquired certain assets and certain liabilities of Sintex-Wausaukee Composites Inc., a privately-owned manufacturer of fiberglass reinforced polymer components, headquartered in Wausaukee, Wisconsin for net cash of $3,579. 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 September 25, 2017. The revised fair values of the net assets acquired exceeded the purchase price by $1,159, as a result a gain has been recognized in the Statements relating to this bargain purchase in accordance with IFRS 3.36. The purchase price allocation was finalized on December 31, 2017.

Acquistion 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 deductible for tax purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

2.1 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 thousands of U.S. dollars except per share figures)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Principles of consolidation

The Statements include the accounts of the Company's subsidiaries.

Subsidiaries

Subsidiaries are entities over which the Company has control, where control is achieved when the Company: has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. The Company holds 100% of the voting rights in, and therefore controls, its subsidiaries.

The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries as follows:

- cost is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, and business acquisition related expenses are expensed as incurred;
- identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date;
- the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill; and
- if the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is reassessed and any remaining difference is recognized directly in the consolidated statements of net earnings and comprehensive income.

Inter-company transactions between subsidiaries are eliminated on consolidation.

2.3 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 on a retrospective basis. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement.

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

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

- 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.

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 Statements.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 standards using the modified retrospective approach.

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.

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

2.4 Reportable Segments

The Company's reportable segments are organized around the markets it serves and are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The President and Chief Executive Officer of the Company has authority for resource allocation and assessment of the Company's performance and therefore acts as the CODM.

2.5 Foreign currency

The Statements are presented in U.S. dollars, which is the currency of the primary economic environment in which the Company operates (the "functional currency"). References to "$" are to U.S. dollars, references to "C$" are to Canadian dollars.

Items included in the financial statements of each of the Company's subsidiaries are measured using the functional currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in the consolidated statements of net earnings and comprehensive income.

Monetary balances denominated in a currency other than U.S. dollars are translated at the period end rates of exchange, and the results of the operations are translated at average rates of exchange for the period. Non-monetary balances are translated at the exchange rate prevailing at the date of the transaction.

Foreign exchange gains and losses that relate to borrowings, non-current monetary items and non-current forward foreign exchange contracts are presented in the consolidated statements of net earnings and comprehensive income within "unrealized foreign exchange loss (gain) on non-current monetary items".

All other foreign exchange gains and losses are presented in the consolidated statements of net earnings and comprehensive income within "foreign exchange (loss) gain".

2.6 Revenue recognition

Manufacturing Operations

Persuasive evidence of an arrangement exists in the form of a written contract. A process is in place that initiates a pre-shipment acceptance by the customer at the Company's plant. This acceptance prior to shipment mitigates the likelihood of customer's dissatisfaction with

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the final product upon delivery to the customer. Revenue is recorded when the buses or coaches are delivered or shipped. The customer does not have a legal right to return the delivered products after the acceptance period, or deviate from the agreed upon price. The Company's contract clearly identifies a fixed and determinable price.

In connection with its sales of new coaches, the Company at times agrees to accept a pre-owned coach in exchange and gives the buyer a credit equal to the pre-owned coach's then-current fair value. Any credit provided to the customer in excess of the fair value of the pre-owned coach is deducted from the selling price of the new coach.

Operating lease revenue is recorded on a straight-line basis in the period earned over the life of the contract and is recognized in revenue in the consolidated statements of net earnings and comprehensive income due to its operating nature.

When a single sale transaction requires the delivery of more than one product or service (multiple performance obligations), the revenue recognition criteria are applied to the separately identifiable performance obligations. A performance obligation is considered to be separately identifiable if the product or service delivered has stand-alone value to that customer and the fair value associated with the product or service can be measured reliably. The amount recognized as revenue for each performance obligation is its fair value in relation to the fair value of the contract as a whole. Management has determined that the standard base warranty included in the bus or coach purchase is not a separate performance obligation and therefore recognized upon delivery of the bus or coach.

The Company sells extended warranty contracts that provide coverage in addition to the basic coverage. Proceeds from the sale of these contracts are deferred and amortized into revenue over the extended warranty period commencing at the end of the basic warranty period. The Company also receives proceeds from the sale of extended warranties relating to major subsystems such as engines, transmissions, axles and air conditioning that are purchased for the customer from the original equipment manufacturer ("OEM"). The related cost to purchase the OEM warranty contracts have been recorded as a reduction of revenue as the Company is an agent to the transaction.

The Company does not recognize revenue on any bus or coach firm or option orders that have not yet been delivered.

<u>Aftermarket Operations</u>

Persuasive evidence of an arrangement exists in the form of an authorized sales order. The customer is invoiced, and revenue is recorded at the time the part is delivered using a commercial shipper. The price list for parts clearly identifies a fixed and determinable price, while also describing that the Company has no legal obligation to accept the return of goods other than on defective and/or warrantable parts product. Aftermarket parts revenue does not contain any revenue related to the bus or coach warranty.

2.7 Employee benefits

For defined benefit pension plans and other post-employment benefits, the net periodic pension expense is actuarially determined by independent actuaries using the projected unit credit method. Actuarial remeasurement is comprised of actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), and is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in accumulated other comprehensive loss and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are comprised of service costs (including current service cost, past service cost and gain or losses on curtailments and settlements), net interest expense or income and remeasurement.

The asset or liability recognized in the consolidated statements of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan.

Payments to defined contribution plans are expensed as incurred, which is as the related employee service is rendered.

2.8 Share-based compensation plans

The Company operates cash-settled and equity-settled share-based compensation plans under which it receives services from senior managment and non-employee members of the board of directors of the Company (the "Board").

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For the cash-settled plans (note 9), the expense is determined based on the fair value of the liability at the end of the reporting period until the awards are settled. Certain share-based compensation plans include non-market performance conditions. The Company`s accounting policy is to recognize the impact of non-market performance conditions by adjusting the number of awards that are expected to vest. At the end of each reporting period, the Company re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions on compensation expense (note 20) in the consolidated statements of net earnings and comprehensive income.

For the equity-settled plans (note 11), share-based payments to senior management are measured at the fair value of the equity instruments at the grant date. The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period in which the options vest. The offset to the recorded cost is the stock option reserve. Consideration received on the exercise of stock options is recorded as share capital and the related stock option reserve is transferred to share capital. Upon expiry, the recorded value is transferred to retained earnings. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the consolidated statements of net earnings and comprehensive income such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the stock option reserve. Where the terms and conditions of options are modified, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statements of net earnings and comprehensive income.

2.9 Cash

Cash and cash equivalents comprise cash on hand, demand deposits and investments with an original maturity at the date of purchase of three months or less.

2.10 Accounts receivables

Accounts receivables are amounts due from customers from the rendering of services or sale of goods in the ordinary course of business. Accounts receivables are classified as current assets if payment is due within one year or less. Accounts receivables are recognized initially at fair value and subsequently measured at amortized cost, less impairment, if any.

The Company maintains an allowance for doubtful accounts and sales adjustments to provide for impairment of trade receivables. The expense relating to doubtful accounts is included within "Sales, general and administration costs and other operating expenses" in the consolidated statements of net earnings and comprehensive income.

2.11 Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

2.12 Property, plant and equipment

Property, plant and equipment are recorded at cost reduced by applicable investment tax credits, less accumulated depreciation. Depreciation is calculated at the following annual rates:

Building and building improvements	4% declining-balance basis
Machinery and equipment	25% declining-balance basis
Demo buses and coaches	20% - 50% straight-line basis
Computer hardware and software	30% declining-balance basis
Office equipment	20% declining-balance basis
Buses and coaches available for lease	20% - 50% straight-line basis

Depreciation of equipment under finance leases is based on the lesser of the equipment's useful life or the term of the finance lease.

Leases of property, plant and equipment on terms that transfer substantially all of the risks and rewards of ownership are accounted for as finance leases. All other leases of property, plant and equipment are accounted for as operating leases.

Property, plant and equipment are tested for impairment as described under "Impairment of non-financial assets" in note 2.15.

2.13 Intangible assets

Identifiable intangible assets are initially recorded at fair value. Based on management's forecasts and business plans and the going concern of the Company, the trade names intangible asset (note 6) has been deemed to have an indefinite life, except for the NABI Parts tradename

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

which is amortized over its useful life of 12 years. For purposes of impairment testing, the fair value of trade names is determined using an income approach.

Intangible assets that have a finite life are amortized using the straight-line method over the estimated useful lives of the assets as follows:

Patents and Licenses	5-12 years
Backlog of sales orders	1-2 years
Customer relationships	21 years

Identifiable intangible assets with finite and indefinite lives are tested for impairment as described under "Impairment of non-financial assets" in note 2.15.

2.14 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired business at the date of acquisition. Separately recognized goodwill is tested at the end of every reporting period for possible impairment when there are events or changes in circumstances that indicate that their carrying amounts may not be recoverable and also tested annually for impairment. Goodwill is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

2.15 Impairment of non-financial assets

Non-financial assets with finite lives are tested at the end of every reporting period for possible impairment when there are events or changes in circumstances that indicate that their carrying amounts may not be recoverable. In addition, non-financial assets that are not amortized are subject to an annual impairment assessment. The carrying values of identifiable intangible assets with indefinite lives are tested annually for impairment because they are not amortized. Impairment is determined by comparing the recoverable amount of such assets with their carrying amounts. Any impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount within earnings of continuing or discontinued operations, as appropriate.

The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows or cash generating units ("CGUs"). The Company evaluates impairment losses for potential reversals, other than goodwill impairment, when events or changes in circumstances warrant such consideration.

2.16 Provisions

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses, unless the losses relate to an onerous contract. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each consolidated statements of financial position date using the current discount rate. The increase in the provision due to passage of time is recognized as interest expense.

At the time of sale, a provision for warranty claims relating to the base warranty on the entire bus or motor coach and a corrosion warranty on the related structure, is recorded and charged against operations. This warranty provision is based upon management's best estimate of expected future warranty costs utilizing past claims experience. Actual warranty expenditures are charged against the provision as incurred.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

2.17 Long-term debt

Long-term debt is recognized initially at fair value, net of transaction costs incurred. Debt is subsequently stated at amortized cost with any difference between the proceeds and the amortized cost recognized in the consolidated statements of net earnings and comprehensive income over the term of the debt using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt is classified as a current liability unless the Company has an unconditional right to defer settlement for at least 12 months after the date of the consolidated statements of financial position.

2.18 Financial instruments

Financial assets

Purchases and sales of financial assets are recognized on the settlement date, which is the date on which the asset is delivered to or by the Company. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or were transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets are classified in the following categories at the time of initial recognition based on the purpose for which the financial assets were acquired:

Financial assets at fair value through profit or loss

Classification

Financial assets at fair value through profit or loss are financial assets held for trading or designated as fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Assets in this category include derivative financial instruments and are classified as short or long term assets in the consolidated statements of financial position.

Recognition and measurement

Financial assets are initially recognized at fair value and subsequently carried at fair value through profit and loss, with changes recognized in the consolidated statements of net earnings and comprehensive income. Transaction costs are expensed as incurred.

Financial assets carried at amortized cost

Classification

Financial assets classified as amortized cost are non-derivative financial assets that the Company intends to hold in order to collect the contractual cash flows and have fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the consolidated statements of financial position date, which are classified as non-current assets. Assets in this category include accounts receivables, deposits and cash and are classified as current assets in the consolidated statements of financial position.

Recognition and measurement

Financial assets carried at amortized cost are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

Financial liabilities carried at amortized cost

Financial liabilities primarily consist of bank indebtedness, accounts payable and accrued liabilities, derivative financial instruments, other long-term liabilities and long-term debt. Financial liabilities are initially measured at fair value and subsequently measured at amortized cost unless classified as fair value through profit or loss.

Derivative instruments

Derivatives are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at their fair value. The Company's 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 "Fair market value gain (loss) on interest rate swap" or "unrealized foreign exchange (loss) gain on non-current monetary items" in the consolidated statements of net earnings and comprehensive income consistent with the underlying nature and purpose of the derivative instruments.

2.19 Taxation

Tax expense comprises current and deferred tax. Tax is recognized in the consolidated statements of net earnings and total comprehensive income except to the extent it relates to items recognized directly in equity, in which case the related tax is recognized in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using the tax rates under the laws that were enacted or substantively enacted at the date of the consolidated statements of financial position.

Deferred tax is accounted for using the liability approach and is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the consolidated statements of financial position and the corresponding tax base used in the computation of taxable profit. Deferred tax is calculated based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply to the year of realization or settlement based on tax rates and laws enacted or substantively enacted at the date of the consolidated statements of financial position.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). The carrying amount of deferred tax assets is reviewed at each consolidated statements of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are generally recognized for all taxable temporary differences except to the extent that the deferred tax liability arises from: the initial recognition of goodwill; or the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). As well, deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

2.20 Investment tax credits

The Company has earned investment tax credits ("ITCs") relating to a percentage of eligible current and capital research and development expenditures incurred in each taxation year. Investment tax credits are recognized when there is reasonable assurance that the Company will comply with the associated conditions and the grants will be received. The investment tax credits are recognized either as a reduction in cost of sales on the consolidated statements of net earnings and comprehensive income, or as a reduction in property, plant and equipment, depending on where the original costs which gave rise to the credits were recorded.

2.21 Vendor Rebates

The Company records certain consideration received from a vendor, which is probable and can be reasonably estimated, as a reduction of the cost of purchases during the period.

2.22 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

<u>Critical accounting estimates and assumptions</u>

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. Estimates are reviewed on a regular basis and, as adjustments become necessary, they are reported in the consolidated statements of net earnings and comprehensive income in the periods in which they become known. The assets and liabilities which require management to make significant estimates and assumptions in determining carrying values include, inventories, derivative financial instruments, property, plant and equipment, intangible assets, goodwill, provisions, accrued benefit liability, deferred compensation obligation and deferred income taxes.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment are addressed below.

Intangible assets and goodwill

The values associated with the initial recognition and impairment tests of the intangible assets and goodwill involve significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives.

These significant estimates are subject to the Company's future results. These determinations will affect the amount of amortization expense on intangible assets recognized in future periods.

Management assesses impairment by comparing the recoverable amount of an intangible asset or goodwill with its carrying value. The determination of the recoverable amount involves significant estimation by management.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management has determined that for purposes of this evaluation the Company has four CGUs: bus manufacturing, motor coach manufacturing, ARBOC and aftermarket parts operations.

Goodwill is allocated to the Company's four CGUs for the purpose of impairment testing. The Company performs its annual test for impairment of goodwill and trade names in the fourth quarter of each year and also when indicators of impairment exist.

Accrued benefit liability

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Determination of benefit expense requires assumptions such as the discount rate to measure obligations and return on assets, the projected age of employees upon retirement, life expectancy and the expected rate of future compensation changes.

Actual results will differ from results which are estimated based on assumptions. See note 2.7 for certain assumptions made with respect to employee benefits.

Income Taxes

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire. Management's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of the Company's ability to utilize the underlying future tax deductions changes, the Company would be required to recognize more or fewer of the tax deductions as assets, which would decrease or increase the income tax expense in the period in which this is determined.

The Company is subject to taxation in multiple jurisdictions. Significant judgment is required in determining the worldwide provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions for uncertain tax positions are made using management's best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. Management reviews the adequacy of these provisions at the date of each consolidated statements of financial position. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Provision for Warranty Costs

The Company offers warranties on the buses and coaches it sells. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. Factors that could impact the estimated claim information include quality initiatives, as well as parts and labour costs.

<u>Critical judgments in applying accounting policies</u>

The following critical judgments that were made by management have the most significant effect on the amounts recognized in the financial statements.

Revenue recognition

As described in note 2.6, management assessed the criteria for the recognition of revenue related to arrangements that have multiple components as set out in IFRS 15. Also, judgment is necessary to determine when components can be recognized separately and the allocation of the related consideration allocated to each component.

Also described in note 2.6, management assessed the criteria for the recognition of revenue in an agency relationship related to the sale of extended warranties that are purchased for the customer from the OEM as set out in IFRS 15.

Functional currency

Management assessed the criteria for the determination of functional currency as set out in IAS 21. An entity is required to place the greatest weight on the currency that influences the pricing of the transactions that it undertakes rather than focusing on the currency in which the transactions are denominated in. The functional currency of the Company is the United States dollar as it is the currency of the primary economic environment in which the Company operates. In addition, it is the competitive forces of the United States marketplace that determines the sales prices of its goods and services. Predominantly, the costs for labour, material and overhead that address the

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

needs and support the Company's customers are incurred in United States dollars, and hence the pricing of goods and services to the customer is more greatly influenced from operations and the competitive forces in the United States.

Goodwill

Judgment is required in the selection of CGUs and the allocation of assets and liabilities to these CGUs, which is necessary to assess the impairment of long-term assets, goodwill and intangible assets.

2.23 Standards issued but not yet adopted

IFRS 16 – Leases:

In January 2016, the IASB issued IFRS 16, Leases, with an effective date of January 1, 2019, which introduced new guidance for identifying leases as well as the accounting, measurement and presentation of leases by the lessee. The lessee now recognizes a liability for the future lease payments to be made for each lease. A right-of-use asset is also recognized and amortized over the useful life. As a result, the previous distinction between operating and finance leases no longer applies. The new standard will retain many key aspects of the current lessor accounting model. With respect to first time application of IFRS 16, the Company can choose to apply the standard using the full retrospective approach or modified retrospective approach The Company plans on using the modified retrospective approach.

The Company will adopt the standard on its effective date. The Company is in the process of finalizing its transition approach. The right-of-use assets and lease liability will be presented separately on the balance sheet. Management anticipates the adoption of the standard will result in increases to assets of approximately $109 million and liabilities of approximately $109 million on the consolidated statements of financial position. Management does not anticipate there will be a material impact in the consolidated statements of net earnings and total comprehensive income.

3. ACCOUNTS RECEIVABLE

	December 30, 2018	December 31, 2017
Trade, net of allowance for doubtful accounts	$ 358,441	$ 349,036
Other	29,045	37,431
	$ 387,486	$ 386,467

4. INVENTORIES

	December 30, 2018	December 31, 2017
Raw materials	$ 213,117	$ 182,240
Work in process	150,654	101,611
Finished goods	60,914	75,631
	$ 424,685	$ 359,482

	Fiscal 2018	Fiscal 2017
Cost of inventories recognized as expense and included in cost of sales	$ 2,015,272	$ 1,856,223
Write-down of inventory to net realizable value in cost of sales	4,407	9,186
Reversals of a previous write-down in inventory	2,545	1,108

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

5. PROPERTY, PLANT AND EQUIPMENT

	Land, building and building improvements	Machinery and equipment	Computer hardware and software	Office equipment	Demo buses and coaches	Buses and coaches available for lease	Total
Cost	60,724	113,153	38,518	4,852	15,564	2,069	234,880
Accumulated depreciation	6,524	61,162	23,842	2,263	8,819	689	103,299
January 1, 2017 net book value	54,200	51,991	14,676	2,589	6,745	1,380	131,581
Assumed as a result of business acquisitions	7,339	4,644	899	127	—	—	13,009
Additions (owned and leased)	15,139	26,245	6,500	680	3,805	5,049	57,418
Disposals	(25)	(159)	(27)	(32)	(116)	—	(359)
Transfers from inventory	—	—	—	—	4,813	8,317	13,130
Depreciation charge	(2,514)	(14,268)	(4,520)	(665)	(3,114)	(2,825)	(27,906)
December 31, 2017 net book value	74,139	68,453	17,528	2,699	12,133	11,921	186,873
Additions (owned and leased)	19,369	50,024	8,191	2,006	470	9,097	89,157
Transfer from inventory	—	—	—	—	3,857	1,588	5,445
Disposals	(300)	(336)	(50)	(6)	—	—	(692)
Depreciation charge	(2,881)	(17,568)	(5,321)	(655)	(2,744)	(3,671)	(32,840)
December 30, 2018 net book value	90,327	100,573	20,348	4,044	13,716	18,935	247,943

	Land, building and building improvements	Machinery and equipment	Computer hardware and software	Office equipment	Demo buses and coaches	Buses and coaches available for lease	Total
Recorded as:							
Cost	$ 83,149	$ 143,561	$ 45,877	$ 5,619	$ 22,093	$ 13,931	314,230
Accumulated depreciation	9,010	75,108	28,349	2,920	9,960	2,010	127,357
December 31, 2017 net book value	$ 74,139	$ 68,453	$ 17,528	$ 2,699	$ 12,133	$ 11,921	$186,873
Cost	$ 102,202	$ 192,983	$ 54,002	$ 7,615	$ 26,421	$ 24,615	407,838
Accumulated depreciation	11,875	92,410	33,654	3,571	12,705	5,680	159,895
December 30, 2018 net book value	$ 90,327	$ 100,573	$ 20,348	$ 4,044	$ 13,716	$ 18,935	$247,943

The Company leases various machinery and computer hardware and software licenses under non-cancellable finance lease agreements (note 8). During Fiscal 2018, the Company had $18,167 (Fiscal 2017: $4,605) of additions to leased machinery and computer hardware and software licenses. The Company is a lessee under finance leases for building improvements, machinery and computer hardware and software licenses as follows (which amounts have been included in the preceding table):

	Land, building and building improvements	Machinery and equipment	Computer hardware and software	Total
Cost	$ 3,926	$ 23,004	$ 12,783	$ 39,713
Accumulated depreciation	345	14,517	10,532	25,394
December 31, 2017 net book value	3,581	$ 8,487	$ 2,251	$ 14,319
Cost	3,926	41,165	12,788	57,879
Accumulated depreciation	913	18,431	11,216	30,560
December 30, 2018 net book value	$ 3,013	$ 22,734	$ 1,572	$ 27,319

6. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Trade names	Patents and Licenses	Customer relationships	Backlog of sales orders	Total
Cost	$ 383,068	$ 219,500	$ 121,674	$ 347,821	$ 3,200	$ 1,075,263
Accumulated amortization	—	688	90,708	86,358	2,800	180,554
January 1, 2017 net book value	383,068	218,812	30,966	261,463	400	894,709
Additions	—	—	193	—	—	193
Assumed as a result of business acquisitions	53,256	4,800	9,000	50,500	3,200	120,756
Amortization charge	—	(275)	(11,151)	(17,536)	(734)	(29,696)
December 31, 2017 net book value	436,324	223,337	29,008	294,427	2,866	985,962
Additions	—	—	50	—	—	50
Adjustment to purchase equation for business combinations (note 1.1)	(46)	—	—	—	—	(46)
Amortization charge	—	(275)	(12,235)	(19,580)	(2,866)	(34,956)
December 30, 2018 net book value	$ 436,278	$ 223,062	$ 16,823	$ 274,847	$ —	$ 951,010
Recorded as:						
Cost	$ 436,324	$ 224,300	$ 130,867	$ 398,321	$ 6,400	$ 1,196,212
Accumulated amortization	—	963	101,859	103,894	3,534	210,250
December 31, 2017 net book value	436,324	223,337	29,008	294,427	2,866	985,962
Cost	436,278	224,300	130,917	398,321	6,400	1,196,216
Accumulated amortization	—	1,238	114,094	123,474	6,400	245,206
December 30, 2018 net book value	$ 436,278	$ 223,062	$ 16,823	$ 274,847	$ —	$ 951,010

The recoverable amount of the Company's cash generating units ("CGUs") is determined based on value-in-use calculations. These calculations use estimated cash flow projections based on financial plans approved by the Board covering a three-year period and discount rates based on weighted average cost of capital of like businesses that range between 9% and 15% per annum for the bus and motor coach manufacturing CGUs, between 11% and 17% for the ARBOC CGU and between 6% and 10% per annum for the aftermarket parts CGU. Cash flows beyond this period are extrapolated using a steady estimated growth rate based on the long-term average annual growth rate of 3% for each industry in which the CGUs operate. Management has determined planned gross margins based on a projected production schedule, past performance and expectations of market development. The discount rates used reflect specific risk relating to the relevant CGUs.

Sensitivity testing is conducted as part of the annual impairment tests. Management believes that any reasonable change in the key assumptions used to determine the recoverable amount would not cause the carrying amount of the transit bus, motor coach and ARBOC manufacturing and the aftermarket parts CGU to exceed its recoverable amount.

Based upon historical operating results, management's forecasts and business plans, the Company's trade names were assigned an indefinite life, except for the NABI Parts tradename (net book value of $2,063 at December 30, 2018) which is amortized over its useful life of 12 years. The fair value less cost to sell of the Company's trade name intangible asset is determined using a variation of the Income Approach known as the Relief from Royalty Method. The underlying concept for this methodology is that the Company owns its trade name as opposed to having a license to use it; the Company does not have to pay royalties for the use of its trade name on its own products and services. These royalties are usually expressed as a percentage of sales. The Relief from Royalty Method is based on the premise that free cash flow is a more valid criterion for measuring value than "book" or accounting profits. Cash flows are based on an estimated royalty rate applied to management's projected revenue attributable to the trade name. The cash flows are summarized and discounted back to their net present value at an appropriate intangible asset rate of return in order to estimate the fair value of the trade name. The estimated royalty rate of 4.0% was applied to all the Company's projected revenues based upon comparable publicly reported trade name and trademark licensing data and specific qualitative factors. The cash flows were discounted at the risk adjusted weighted average cost of capital for the Company.

7. 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:

		December 30, 2018	December 31, 2017
As presented on statements of financial position:			
Deferred tax liabilities		(83,121)	(88,453)
	$	(83,121) $	(88,453)

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

		Fiscal 2018	Fiscal 2017
Beginning of period	$	(88,453) $	(94,324)
Assumed as a result of business acquisitions		—	(25,705)
Exchange rate differences		321	198
Tax recorded through net earnings		5,552	30,862
Tax recorded through other comprehensive loss		(1,171)	1,679
Tax recorded on bargain purchase gain		—	(763)
Benefit of loss carry forward and share issuance costs recognized against income taxes payable		(29)	(114)
Tax recorded through equity		659	(286)
End of period	$	(83,121) $	(88,453)

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
January 1, 2017	(2,762)	(7,522)	(182,977)	—	(2,705) $	(195,966)
Assumed as a result of business acquisitions	—	(636)	(25,539)	—	(215)	(26,390)
Tax recorded on bargain purchase gain	—	(763)	—	—	—	(763)
Tax reversed through net earnings	(5,263)	2,646	71,922	—	(4,876)	64,429
December 31, 2017	**(8,025)**	**(6,275)**	**(136,594)**	**—**	**(7,796)**	**(158,690)**
Tax recorded through net earnings	8,025	(5,524)	9,283	—	6,717	18,501
December 30, 2018	**$ —**	**$ (11,799)**	**$ (127,311)**	**$ —**	**$ (1,079)**	**$ (140,189)**

Deferred tax assets	Reserves and accruals not currently deductible	Tax Credits	Provisions	Property Plant and Equipment	Pension	Deferred Financing Costs and Interest	Other	Total
January 1, 2017	32,513	6,047	38,292	7,553	5,578	2,698	8,961	$101,642
Assumed as a result of business acquisitions	445	—	240	—	—	—	—	685
Tax recovered (charged) through net earnings	(9,513)	(4,894)	(8,111)	(5,921)	(3,728)	(195)	(1,205)	(33,567)
Tax recorded through other comprehensive loss	—	—	—	—	1,679	—	—	1,679
Tax recorded through equity	—	—	—	—	—	—	(286)	(286)
Benefit of loss carry forward and share issuance costs recognized against income taxes payable	—	—	—	—	—	(114)	—	(114)
Exchange differences	68	—	81	16	12	6	15	198
December 31, 2017	$ 23,513	$ 1,153	$ 30,502	$ 1,648	$ 3,541	$ 2,395	$ 7,485	$ 70,237
Tax recorded through net earnings	(9,046)	(67)	(172)	(1,656)	(624)	(318)	(1,066)	$ (12,949)
Tax recorded through other comprehensive loss	—	—	—	—	(1,171)	—	—	$ (1,171)
Tax recorded through equity	—	—	—	—	—	—	659	$ 659
Benefit of loss carry forward and share issuance costs recognized against income taxes payable	—	—	—	—	—	(29)	—	$ (29)
Exchange rate differences	109	—	141	8	16	11	36	$ 321
December 30, 2018	$ 14,576	$ 1,086	$ 30,471	$ 0	$ 1,762	$ 2,059	$ 7,114	$ 57,068

Deferred income tax asset are recognized for income tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company has an income tax loss carry-forward of $9,701 which will more likely than not be applied against future taxable income.

2019	151
2020 to 2038 (includes U.S. federal tax losses that are restricted in application to $96 per year)	9,550
	$ 9,701

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

	Fiscal 2018	Fiscal 2017
Earnings before income tax expense	$ 210,653	$ 241,622
Tax calculated using a 21% U.S. tax rate in 2018 and 35% in 2017	44,237	84,567
Tax effect of:		
Withholding and other taxes	2,989	1,591
Non-taxable income	(1,967)	(13,859)
Revision of tax estimates	(1,737)	(2,824)
Foreign exchange impact	(8,275)	2,490
State taxes	14,566	7,905
U.S. tax reform impact of rate change on deferred income taxes	(849)	(32,978)
U.S. tax reform impact on foreign tax credit pool	1,146	5,941
Rate differential on income taxed at other than U.S. statutory rate	(377)	(2,547)
Other	978	(32)
Income tax expense	$ 50,711	$ 50,254

Current income taxes	$ 56,263	$ 81,116
Deferred income taxes recovered	(5,552)	(30,862)
Income tax expense for the period	$ 50,711	$ 50,254

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

The net impact of the revaluation of deferred tax balances due to the lowering of the corporate federal tax rate from 35% to 21% was a recovery of $32,978 and the write-down of the foreign tax credit carryover pool resulted in an expense of $5,941, for a net income tax recovery of $27,037.

The impact of U.S. tax reform in 2017 is disclosed above as “U.S. tax reform impact of rate changes on deferred income taxes” and “U.S. tax reform impact on foreign tax credit pool”. The net of these two items resulted in a recovery of $27,037, reducing the 2017 effective income tax rate by 11.2%. These estimates continue to be adjusted as additional guidance from the U.S. Department of the Treasury is provided.

8. OBLIGATIONS UNDER FINANCE LEASES

The Company has entered into finance leases for equipment, building improvements, computer hardware and software licenses, with an imputed weighted average interest rate of 4.25% based on individual lease rates ranging between 3.5% and 5.9%, expiring between 2019 and 2022. The following is a schedule of future minimum lease payments, together with the balance of the obligation under the finance leases as at December 30, 2018:

2019	8,803
2020	7,204
2021	5,990
2022	4,358
2023	3,008
	29,363
Less: Amounts representing interest	2,340
	27,023
Less: Current portion	7,936
	$ 19,087

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

9. DEFERRED COMPENSATION OBLIGATION

	December 30, 2018	December 31, 2017
Performance share units under PRSU Plan (officers and senior management)	$ 6,753	$ 20,091
Restricted share units under PRSU Plan (officers and senior management)	638	2,185
Deferred share units under DSU Plan (non-employee board of directors)	2,265	3,531
	9,656	25,807
Less: current portion	4,677	15,724
	$ 4,979	$ 10,083

Effective December 17, 2012, the Board approved the Performance and Restricted Share Unit Plan (the “PRSU Plan”) and it was amended on December 16, 2013 and on December 18, 2018. The terms of the amended PRSU Plan govern awards made on or after the 2014 plan year and 2018 plan year, respectively.

The purposes of the PRSU Plan are to attract, retain and motivate key personnel and reward officers and senior management and to align their interests with those of shareholders by making a significant portion of their incentive compensation directly dependent on achieving key strategic, financial and operational objectives that are crucial to the ongoing growth and profitability of the Company. Under the terms of the PRSU Plan, the human resources, compensation and corporate governance committee of the Board may grant eligible participants performance share units (“PSUs”) or restricted share units (“RSUs”), which give the holders thereof the right to receive, upon vesting and redemption of a unit, a cash payment equal to the fair market value of a Share at the time of redemption. When dividends are paid on a Share, additional units equivalent to the amount of the dividends multiplied by the number of PSUs and RSUs held (and determined based on the then fair market value of the Shares) are credited to a participant’s account. The actual value of a PSU on the settlement date is contingent on the Share price and the Company’s actual performance over a three-year period relative to the established objectives. The actual value of an RSU on the settlement date is contingent on the Share price only and RSUs generally vest and settle as to one-third on each of the first, second and third anniversaries of the grant date. PSUs and RSUs also immediately vest upon a participant's termination without cause or resignation for good reason within a specified period of time following the closing of a transaction resulting in certain change of control events and upon certain terminations of employment and, with respect to PSUs and RSUs granted prior to 2019, upon the closing of a transaction resulting in certain change of control events.

RSUs and PSUs granted in Fiscal 2018 were determined based on the volume weighted average trading price of a Share for the last five trading days of 2017 and the desired compensation value.

As well, the Board adopted NFI’s Deferred Share Unit Plan for Non-Employee Directors (the "DSU Plan") on November 7, 2011 and it was amended and restated on December 8, 2015 and December 18, 2015. Pursuant to the plan, non-employee directors may elect once each calendar year to receive all or a portion of their annual retainer and meeting fees in the form of deferred share units (“DSUs”) instead of cash. A DSU is the right to receive a cash payment based on the value of a Share credited by means of a bookkeeping entry to an account in the name of the non-employee director. DSUs are credited to the director’s account on the first day of each calendar quarter, the number of which is determined by dividing the amount of the applicable portion of the director’s elected amount by the volume weighted average trading price of a Share for the last five trading days.

When dividends are paid on a Share, additional DSUs equivalent to the amount of the dividend multiplied by the number of DSUs held (and determined based on the then fair market value of the Shares) will be credited to the director’s account. At the end of the director’s tenure as a member of the Board, he or she will be entitled to receive a cash redemption payment equal to the fair market value of a Share multiplied by the number of DSUs held.

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

	PSUs	RSUs	DSUs	Total
Units outstanding at January 1, 2017	216,010	47,162	71,985	335,157
Units granted	199,305	28,764	8,145	236,214
Distribution units granted	6,287	1,742	1,777	9,806
Vested and reclassified as current liability	(289,755)	(45,888)	—	(335,643)
Units outstanding at December 31, 2017	131,847	31,780	81,907	245,534
Units granted	53,883	26,942	9,262	90,087
Distribution units granted	5,112	1,620	2,426	9,158
Vested and reclassified as current liability	(75,001)	(31,715)	—	(106,716)
Units outstanding at December 30, 2018	115,841	28,627	93,595	238,063
Vested units	—	—	93,595	93,595
Unvested units	115,841	28,627	—	144,468

10. LONG-TERM DEBT

	Face Value	Unamortized Transaction Costs	**Net Book Value December 30, 2018**	Net Book Value December 31, 2017
Term Credit Facility	$ —	$ —	$ —	$ 478,763
Revolving Credit Facility, Secured ("Secured Revolver")	—	—	—	102,000
Revolving Credit Facility, Unsecured (“Revolver”)	641,600	2,168	639,432	—
	$ 641,600	$ 2,168	$ 639,432	$ 580,763

On October 25, 2018 NFI entered into a new five-year senior unsecured, revolving credit facility (the"Credit Facility") and extinguished its fifth amended and restated credit agreement (the "Prior Credit Agreement"). Upon extinguishment of the Prior Credit Agreement, the unamortized transaction costs related thereto were realized in the consolidated statements of earnings and total comprehensive Income as an increase to Accretion in carrying value of long-term debt and convertible debentures expense of $1.9 million.

The unsecured Credit Facility has a total borrowing limit of $1.0 billion, which includes a $100 million letter-of-credit facility and a $250 million accordion feature. The Credit Facility bears 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 and matures on October 25, 2023. Amounts drawn 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 Prior Credit Agreement had a total borrowing limit of $825.0 million. Under the Prior Credit Agreement the borrowing limit of the Secured Revolver was $343.0 million to support working capital fluctuations. The Secured Revolver included a $55.0 million letter of credit sub-facility, of which $8.8 million of outstanding letters of credit were drawn at December 31, 2017. Under the Prior Credit Agreement the borrowing limit of the Term Credit Facility is $482.0 million. The Prior Credit Agreement also included an accordion feature of $75.0 million.

Loans under the Prior Credit Agreement bore 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 Prior Credit Agreement 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.

11. SHARE-BASED COMPENSATION - EQUITY SETTLED

The Board adopted a Share Option Plan (the “Option Plan”) for NFI on March 21, 2013, under which employees of NFI and certain of its affiliates may receive grants of share options. The Option Plan was amended and restated on December 8, 2015 and on December 31, 2018. 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. One quarter of the share options become vested on the first grant date anniversary and an additional one-quarter on the second, third and fourth anniversary of such date.

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

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)	(330,077)	—	December 28, 2022	C$13.45	C$1.83
December 28, 2015	221,888	(12,832)	—	(153,584)	55,472	December 28, 2023	C$26.75	C$4.21
September 8, 2016	2,171	—	—	(1,629)	542	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	152,833	—	—	—	152,833	January 2, 2026	C$54.00	C$9.53
	2,130,701	(1,163,396)	(20,999)	(623,897)	322,409		C$27.02	

The following reconciles the share 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	152,833	C$54.00	151,419	C$40.84
Exercised during the period	(185,860)	C$11.91	(347,185)	C$11.31
Balance at end of period	946,306	C$27.02	979,333	C$19.94

Fair values were measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values of the share-based payment plans granted in Fiscal 2018 and Fiscal 2017 are the following:

Options grant date	January 2, 2018	January 3, 2017
Fair value at grant date (C$)	$9.53	$7.74
Share price (C$)	$54.00	$40.84
Exercise price (C$)	$54.00	$40.84
Expected volatility	23.3%	26.8%
Option life (expected weighted average life)	5.5 years	5.5 years
Expected dividends	2.48%	2.38%
Risk-free interest rate (based on government bonds)	1.73%	1.20%

On May 8, 2014, shareholders' approved the Company's Restricted Share Unit Plan for Non-Employee Directors (the "Director RSU Plan"). The Director RSU Plan was amended and restated on December 8, 2015 and December 31, 2017. A maximum of 500,000 Shares are reserved for issuance under the Director RSU Plan. Pursuant to the Director RSU Plan, non-employee directors are permitted to elect, once each calendar year, to receive all or a portion of their annual retainer in the form of restricted share units ("Director RSUs") and/or DSUs instead of cash. A Director RSU is a right to acquire a fully-paid and non-assessable Share credited by means of a bookkeeping entry to an account in the name of the non-employee director.

A director generally must make the election prior to the end of the calendar year preceding the year to which such election is to apply. The Board, in its sole discretion, may award additional Director RSUs, subject to an annual aggregate value of $150 per director. The number of Director RSUs to be awarded to a director is determined by dividing the amount of the applicable portion of the director's annual retainer by the applicable fair market value of a Share on that date. When dividends are paid on a Share, additional Director RSUs equivalent to the aggregate number of Director RSUs held by a director on the dividend record date multiplied by the amount of dividend paid by NFI on each Share, and then divided by the fair market value of the Shares on the dividend payment date, will automatically be credited to the director's account. Under the Director RSU Plan, Director RSUs vest immediately as at each applicable award date. A director (other than a U.S. director) will be permitted to exercise the Director RSUs credited to his or her account at any time prior to December 15 of the year following the year in which the director ceases to be a non-employee director of NFI or one of its affiliates. A U.S. director will be required to specify the exercise date in the annual election form in accordance with Section 409A of the U.S. Internal Revenue Code.

	Number of Director RSUs
Balance – January 1, 2017	16,947
Director RSUs issued	10,648
Director RSUs exercised	(5,090)
Balance – December 31, 2017	22,505
Director RSUs issued	15,759
Director RSUs exercised	(15,521)
Balance – December 30, 2018	22,743

12. DEFERRED REVENUE

	December 30, 2018	December 31, 2017
Extended warranties (note 23)	$ 16,910	$ 15,095
Progress payments	25,392	20,857
	42,302	35,952
Less: current portion of deferred revenue	(31,859)	(27,255)
	$ 10,443	$ 8,697

Deferred revenue is comprised of progress payments that have not yet qualified for recognition as revenue under the Company's revenue recognition policies and also deferred revenue from the sale of extended warranty contracts which are amortized over the extended warranty period commencing at the end of the one-year basic warranty period.

13. SHARE CAPITAL

	December 30, 2018	December 31, 2017
Authorized - Unlimited		
Issued - 61,832,625 Common Shares (December 31, 2017: 62,951,444)	$ 654,307	$ 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. On January 17, 2019 the Company amended the NCIB. Pursuant to the amended NCIB, the Company is permitted to repurchase for cancellation up to 5,549,465 Shares, representing approximately 10% of the outstanding public float of Shares on June 4, 2018. The Company was permitted to repurchase Shares commencing on June 14, 2018 up to 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 Fiscal 2018 the Company repurchased 2,153,275 Shares (of which 833,075 Shares were settled and canceled after December 30, 2018) at an average price of C$41.39 per Share for a total repurchase cost of C$89.12 million. Shares settled after December 30, 2018 totaled C$29.1 million.

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	16	745
Repurchase and cancellation of Shares	(1,320)	(13,973)
Balance – December 30, 2018	61,833	$ 654,307

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

14. EARNINGS PER SHARE

		Fiscal 2018		Fiscal 2017
Net earnings attributable to equity holders	$	159,942	$	191,368
Weighted average number of Shares in issue		62,396,962		62,488,370
Add: net incremental Shares from assumed conversion of stock options and exercise of restricted share units		438,968		592,412
Weighted average number of Shares for diluted earnings per Share		62,835,930		63,080,782
Net earnings per Share (basic)	$	2.5633	$	3.0625
Net earnings per Share (diluted)	$	2.5454	$	3.0337

Basic earnings per Share is calculated by dividing the net earnings attributable to equity holders of the Company by the weighted average number of Shares outstanding during the period excluding Shares purchased by the Company and held as treasury shares. During the period the Company held 833,075 Shares as treasury shares.

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

15. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)		Fiscal 2018		Fiscal 2017
Accounts receivable	$	(1,019)	$	(5,738)
Income tax receivable		(9,204)		(23,560)
Inventories		(70,382)		1,804
Prepaid expenses and deposits		4,820		(1,173)
Accounts payable and accrued liabilities		51,925		(6,329)
Income tax payable		(7,328)		3,479
Deferred revenue		(525)		(12,577)
Provisions		(2,279)		16,430
Other		(352)		20,603
	$	(34,344)	$	(7,061)

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

16. ACCRUED BENEFIT LIABILITY

Defined benefit plan

The Company's subsidiaries have defined benefit plans which cover employees in Canada and the United States. Actuarial valuations for the Company's subsidiaries were last performed as at December 31, 2017 and December 31, 2016.

Information in respect of the Company's defined benefit plan is as follows:	December 30, 2018	December 31, 2017
Change in plan assets		
Plan assets at fair value — beginning of period	$ 121,651	$ 102,108
Interest income	4,682	4,234
Remeasurement gains (losses) - return on plan assets (excluding amounts in net interest)	(7,608)	7,581
Administrative expenses	(399)	(913)
Employer’s contributions	22,241	11,476
Benefits paid	(7,842)	(8,370)
Foreign exchange gain (loss)	(7,041)	5,535
Plan assets at fair value — end of period	125,684	121,651
Change in defined benefit obligation		
Defined benefit obligation — beginning of period	141,455	119,323
Current service cost	5,262	3,867
Interest cost	4,901	4,764
Benefits paid	(7,842)	(8,370)
Foreign exchange (gain) loss	(7,242)	6,000
Past Service Costs	6,482	—
Actuarial loss (gain) arising from changes in demographic assumptions	(132)	1,404
Actuarial loss (gain) arising from changes in financial assumptions	(12,427)	11,745
Actuarial loss arising from experience adjustments assumptions	492	2,722
Defined benefit obligation — end of period	130,949	141,455
Accrued benefit liability - present value of unfunded obligations	$ (5,265)	$ (19,804)

The actual loss on the plan assets for Fiscal 2018 was $2,926 (Fiscal 2017: gain of $11,815).

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 $6,482 to reflect pension benefits provided to employees for past service.

The significant actuarial assumptions adopted in measuring the Company’s accrued benefit obligation and net pension plan expenses are as follows:

		Fiscal 2018	Fiscal 2017
Country	Mortality Table	Discount Rate	
Canada	CPM2014 Private sector with Scale MI-2017 with size adjustment	5.50%	3.25%
Canada	CPM2014 Private sector with Scale MI-2017 with no size adjustment	3.90%	3.50%
United States	Base table: RP2006, projection scale MP2018	4.35%	4.20%

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

16. ACCRUED BENEFIT LIABILITY (Continued)

			Discount rate - sensitivity		Life expectancy - sensitivity	
			1% increase	1% decrease	one year increase	one year decrease
Country	Last valuation date	Next valuation date	Then obligation would decrease by:	Then obligation would increase by:	Then obligation would increase by:	Then obligation would decrease by:
Canada	Dec. 31, 2017	Dec. 31, 2018	15.2%	19.5%	1.2%	1.2%
Canada	Dec. 31, 2016	Dec. 31, 2017	13.3%	17.0%	2.0%	2.1%
United States	Dec. 31, 2016	Dec. 31, 2017	9.5%	11.3%	3.0%	3.0%

The defined benefit plan typically exposes the Company to actuarial risks such as: investment risk, interest rate risk and longevity risk.

Investment risk

The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan assets is below this rate, it will create a plan deficit. Management believes the plan currently has a relatively balanced investment in equity securities and debt instruments. Due to the long-term nature of the plan liabilities, the Company's pension committee considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities to leverage the return generated by the fund.

Interest rate risk

A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.

Longevity risk

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

The Company's defined benefit plan is a fixed benefit plan and, as a result, the rate of compensation increases does not have any impact on the actuarially determined accrued benefit liability. Expected contributions to the defined benefit plan for the 52-week period ending December 29, 2019 are $8,967.

The Company's defined benefit pension plan expense, included in cost of sales and sales, general and administration costs and other operating expenses is as follows:

	Fiscal 2018	Fiscal 2017
Current service costs	$ 5,262	$ 3,867
Past service costs	6,482	—
Net interest expense	219	530
Administrative expenses	399	913
Foreign exchange gain	(29)	(160)
Components of defined benefit costs recognized in net earnings	$ 12,333	$ 5,150

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

16. ACCRUED BENEFIT LIABILITY (Continued)

	Fiscal 2018	Fiscal 2017
Remeasurement (losses) gains - return on plan assets (excluding amounts in net interest)	$ (7,608)	$ 7,581
Actuarial (losses) gains arising from changes in demographic assumptions	132	(1,404)
Actuarial (losses) gains arising from changes in financial assumptions	12,427	(11,745)
Actuarial losses arising from experience adjustments assumptions	(492)	(2,722)
Foreign exchange loss	(74)	(231)
	4,385	(8,521)
Deferred income taxes recorded through other comprehensive loss or income	(1,215)	1,679
Net actuarial (losses) gains recognized in other comprehensive loss or income	$ 3,170	$ (6,842)

An analysis of the assets of the plans by investment category is provided as follows:

	December 30, 2018	December 31, 2017
Asset category		
Cash and cash equivalents	2.5%	0.7%
Canadian equities	12.3%	13.2%
Foreign equities	25.1%	39.2%
Real estate	2.3%	3.4%
Bonds	57.8%	43.5%
	100.0%	100.0%

17. Defined contribution pension plans

The Company maintains a defined contribution plan for salaried employees. The net pension expense for the Company's defined contribution plans is as follows:

	Fiscal 2018	Fiscal 2017
Defined contribution pension expense	$ 5,522	$ 4,370

Cash payments contributed by the Company during Fiscal 2018 for its defined benefit and defined contribution pension plans amounted to $27,600 (2017: $15,846).

18. 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

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

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT, (Continued)

(b) Fair value measurement of financial instruments

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

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

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

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

The following table presents the carrying amounts and fair values of financial liabilities 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.

	December 30, 2018		
	Fair value level	Carrying amount	Fair value
Financial assets recorded at fair value			
Interest rate swap	Level 2	$ 6,592	$ 6,592
Derivative financial instrument assets - long term		$ 6,592	$ 6,592
Financial liabilities recorded at fair value			
Foreign exchange forward contracts	Level 2	$ 1,542	$ 1,542
Derivative financial instrument liabilities - current		$ 1,542	$ 1,542

	December 31, 2017		
	Fair value level	Carrying amount	Fair value
Financial assets recorded at fair value			
Derivative financial instrument liabilities			
Total return swap contracts	Level 2	$ 6,785	$ 6,785
Foreign exchange forward contracts	Level 2	1,432	1,432
Derivative financial instrument assets - current		$ 8,217	$ 8,217
Interest rate swap	Level 2	7,422	7,422
Derivative financial instrument assets - long term		$ 7,422	$ 7,422

(c) Risk Management

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objective of the Company's risk management process is to ensure that risks are properly identified and that the capital base is adequate in relation to these risks. The principal financial risk to which the Company is exposes are described below.

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 consolidated statements of net earnings and total comprehensive income consistent with the underlying nature and purpose of the derivative instruments.

Market risk (interest rate risk and foreign currency risk)

Market risk incorporates a range of risks. Movements in risk factors, such as interest rate risk, equity price risk and foreign currency risk, affect the fair values of financial assets and liabilities. The Company uses derivative financial instruments including interest rate swaps, foreign exchange options and forward foreign exchange contracts to manage its risks associated with potentially adverse changes in interest rates and foreign exchange rates. These instruments are financial contracts whose value depends on interest rates and foreign currency prices. The use of derivatives allows the transfer, modification and reduction of current and expected risks, including interest rate, foreign exchange and other market risks. The Company uses derivative financial instruments to manage interest rate and foreign exchange risks in accordance with its risk management policies.

The Company does not hold financial instruments for speculative or trading purposes. The Company has elected not to apply hedge accounting to its derivative financial instruments.

Interest rate risk

The Company's borrowings under the Credit Facility are at variable rates of interest and expose the Company to interest rate risk. The Company attempts to mitigate this risk through interest rate swaps that could become materially more expensive if interest rates increase or become more volatile. If the cost of mitigating interest rates increases, the Company’s debt service obligations on its variable rate indebtedness would increase even though the amount borrowed remained the same, and the Company’s net earnings and cash available for servicing its other indebtedness would decrease.

The interest rate swap is subject to interest rate risk. As an illustration, if interest rates at the Consolidated Statements of Financial Position date had been 100 basis points lower, with all other variables held constant, net earnings and comprehensive income for Fiscal 2018 would have been lower by $3,170 (Fiscal 2017: $911), arising mainly as a result of the related fair value adjustment recorded due to lower interest rate. If interest rates had been 100 basis points higher, with all other variables held constant, net earnings and comprehensive income for Fiscal 2018 would have been higher by $2,906 (Fiscal 2017 $1,042), arising mainly as a result of the related fair value adjustment recorded due to higher interest rate.

On January 20, 2016, the Company entered into a $482,000 interest rate swap designed to hedge floating rate exposure on the $482,000 Term Credit Facility under the Prior Credit Agreement. The interest rate swap fixes the interest rate at 1.154% plus the applicable interest margin. On February 13, 2019, the Company blended the unrealized gain from the existing swap into a $600,000 notional interest rate swap designed to hedge floating rate exposure on the Company's new Credit Facility. The interest rate swap fixes the interest rate at 2.27% plus applicable margin until October 2023.

Equity price risk

The Company entered into a total return swap transaction to hedge the exposure associated with increases in its share value on a portion of the outstanding PSUs, RSUs and DSUs. 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 December 30, 2018, the Company held a position of 221,500 Shares at a weighted average price of C$33.65. 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.

Foreign currency risk

The United States dollar is the Company’s functional currency. Fluctuations in the exchange rate between the United States dollar and Canadian dollar will affect the Company’s reported results. However, the impact of changes in foreign exchange rates on the Company’s reported results differ over time depending on whether the Company is generating a net cash inflow or outflow of Canadian dollars. This is largely dependent on the Company’s revenue mix by currency as operating costs denominated in Canadian dollars have been historically relatively stable.

During Fiscal 2018, the Company generated a net outflow of Canadian dollars. As a matter of policy, the Company enters into foreign exchange forward contracts to protect the expected net Canadian dollar exposure from exchange fluctuation. The Company recorded a net realized foreign exchange loss of $5,793 during Fiscal 2018 (Fiscal 2017: gain of $766). This was comprised of a $4,814 loss on settlement of foreign exchange contracts and a $979 foreign currency loss on translation of Canadian dollar denominated working capital and dividends.

At December 30, 2018, the Company had $57 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 January 2019 to June 2019. The related liability of $1.5 million (December 31, 2017: $1.4 million asset) is recorded on the consolidated statements of financial position as a current derivative financial instruments liability and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the consolidated statements of net earnings and total comprehensive income.

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk, primarily Canadian dollar balances. As an illustration, at December 30, 2018 if the Canadian dollar had weakened 10 percent against the U.S. dollar, with all other variables held constant, net earnings for Fiscal 2018 would have been lower by $1,259 (Fiscal 2017: $1,327). Conversely, if the Canadian dollar had strengthened 10 percent against the U.S. dollar, with all other variables held constant, net earnings would have been higher by $1,539 for Fiscal 2018 (Fiscal 2017: $1,621).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. Financial liabilities consist of accounts payable and accrued liabilities, obligations under finance leases and derivative financial instruments. Account payable and accrued liabilities are paid in the normal course of business and except under certain exceptions, no later than three months of being incurred.

The following table outlines the maturity analysis of the undiscounted cash flows of certain non-financial liability and committed leases as at December 30, 2018:

US dollars in thousands	Total	2019	2020	2021	2022	2023	Post 2023
Other long-term liabilities	1,008	1,008	—	—	—	—	—
Finance leases	29,363	8,803	7,204	5,990	4,358	3,008	—
Accrued benefit liability	9,266	8,967	299	0	—	—	—
Operating leases	70,690	10,759	9,519	9,465	9,055	8,714	23,178
	$ 110,327	$ 29,537	$ 17,022	$ 15,455	$ 13,413	$ 11,722	$ 23,178

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 December 30, 2018, the Company had a cash balance of $10,820 (December 31, 2017: $9,938 of bank indebtedness), the $641,600 Revolver due in 2023 (December 31, 2017: $102,000 Revolver and $482,000 Term Credit Facility) and $13,769 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. 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.

Credit risk

Financial instruments which potentially subject the Company to credit risk and concentrations of credit risk consist principally of cash, accounts receivable and derivative financial instruments. Management has assessed that the credit risk associated with accounts receivable is mitigated by the significant proportion for which the counterparties are well-established transit authorities.

Additionally, up to 80% of the capital cost of new transit buses and coaches sold to public transit authorities and municipalities typically come from the U.S. Federal Transit Administration, while the remaining 20% comes from state and municipal sources. The maximum exposure to the risk of credit for accounts receivable 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. During Fiscal 2018, the Company recorded a bad debt expense of $184 as compared to $174 bad debt expense in Fiscal 2017.

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 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":

	December 30, 2018	December 31, 2017
Current, including holdbacks	$ 358,729	$ 361,805
Past due amounts but not impaired		
1 – 60 days	24,153	22,306
Greater than 60 days	4,830	2,878
Less: Allowance for doubtful accounts	(226)	(522)
Total accounts receivables, net	$ 387,486	$ 386,467

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

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

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. At December 30, 2018, the Company was in compliance with the ratios. The results of the financial covenants tests as of such date are as follows:

	December 30, 2018	December 31, 2017
Total Leverage Ratio (must be less than 3.75)	2.09	1.84
Interest Coverage Ratio (must be greater than 3.00)	13.39	17.15

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

Compliance with financial covenants is reported quarterly to the Board. 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.

(d) Capital management

The Company's objectives in managing capital are to deploy capital to provide an appropriate return to shareholders and to maintain a capital structure that provides the flexibility to take advantage of growth and development opportunities, maintain existing assets, meet financial obligations and enhance the value of the Shares. The capital structure of the Company consists of cash, long-term debt, other long-term liabilities and shareholders' equity, and prior to June 30, 2017, Debentures. The Company manages capital to ensure an appropriate balance between debt and equity. In order to maintain or adjust its capital structure, the Company may issue additional Shares, repurchase Shares, borrow additional funds or refinance debt at different terms and conditions.

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. At December 30, 2018, the Company was in compliance with the ratios.

19. 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 $235 (2017: $244), which have been recognized into earnings during 2018, 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.

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.

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

Segment information about profits and assets is as follows:

	Fiscal 2018			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 2,141,867	$ 377,154	—	$ 2,519,021
Operating costs and expenses	1,935,186	310,864	62,318	2,308,368
Earnings (loss) before income tax expense	206,681	66,290	(62,318)	210,653
Total assets	1,422,771	403,336	248,030	2,074,137
Addition of capital expenditures	66,720	4,271	—	70,991
Addition of goodwill and intangibles assets	50	—	—	50
Goodwill	304,804	131,474	—	436,278

	Fiscal 2017 ("restated")			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 2,012,627	$ 369,231	—	2,381,858
Operating costs and expenses - originally reported	1,787,277	304,838	48,121	2,140,236
Adjustment	7,866	(7,866)	—	—
Operating costs and expenses - restated	1,795,143	296,972	48,121	2,140,236
Earnings (loss) before income tax expense - originally reported	225,350	64,393	(48,121)	241,622
Adjustment	(7,866)	7,866	—	—
Earnings (loss) before income tax expense - restated	217,484	72,259	(48,121)	241,622
Total assets	1,310,528	401,935	262,124	1,974,587
Addition of capital expenditures	51,947	866	—	52,813
Addition of goodwill and intangibles assets	120,912	37	—	120,949
Goodwill	304,850	131,474	—	436,324

The Company's revenue by geography is summarized below:

	Fiscal 2018	Fiscal 2017
United States	$ 2,208,106	$ 2,151,723
Canada	310,915	230,135
Total	$ 2,519,021	$ 2,381,858

The Company had no customers in Fiscal 2018 or Fiscal 2017 with revenue greater than 10% of the Company's revenue.

The Company's disaggregated manufacturing revenue by major product type is provided below. The Aftermarket operations revenue does not have similarly disaggregated categories.

	Fiscal 2018	Fiscal 2017
Transit buses	$ 1,502,115	$ 1,386,273
Motor coaches	537,159	570,653
Medium-duty and cutaway buses	41,770	2,294
Pre-owned coach	46,284	50,441
Fiberglass reinforced polymer components	14,539	2,966
Manufacturing revenue	**$ 2,141,867**	**$ 2,012,627**

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

The allocation of property, plant and equipment to geographic areas is as follows:

	December 30, 2018	December 31, 2017
United States	$ 148,355	$ 92,445
Canada	99,588	94,428
Total	$ 247,943	$ 186,873

20. RELATED PARTY TRANSACTIONS

Compensation of key management

Key management includes the roles of the Board, President and CEO, the CFO, Presidents of each business unit, executive vice presidents, senior vice presidents and vice presidents. The compensation expense for key management for employee services is shown below:

	Fiscal 2018	Fiscal 2017
Salaries and short-term employee benefits	$ 10,294	$ 12,262
Post-employment benefits	396	357
Share-based payment benefits	1,352	16,405
	$ 12,042	$ 29,024

Share-based payment benefits shown above represent the PSU, RSU, Director RSU, DSU and stock option expense that was recorded in the period.

21. COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitments

The Company has leased real property with aggregate minimum lease payments of $70,690 (Fiscal 2017: $89,024) payable as follows:

2019	10,759
2020	9,519
2021	9,465
2022	9,055
2023	8,714
Thereafter	23,178
	$ 70,690

(b) In the normal course of business, the Company receives notice of potential legal proceedings or is named as a defendant in legal proceedings, including those that may be related to product liability, wrongful dismissal or personal injury. Many claims are covered by the Company's insurance policies and management does not expect any of the current claims to have a material adverse effect on the Company's financial position, results of operations or cash flows.

(c) 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 December 30, 2018 range from January 2019 to December 2022.

At December 30, 2018, outstanding surety bonds guaranteed by the Company totaled $394,428 (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.

(d) The Company has a letter of credit sub-facility of $100,000 as part of the Credit Facility (December 31, 2017: $55,000 as part of the Prior Credit Agreement). As at December 30, 2018, letters of credit totaling $13,769 (December 31, 2017: $8,817) remain outstanding under the letter of credit facility as security for the following contractual obligations of the Company:

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

	December 30, 2018	December 31, 2017
Collateral to secure operating facility leases	$ 315	$ 315
Collateral to secure line of credit	6,700	—
Customer performance guarantees	1,099	2,847
Collateral for self-insured workers compensation and general liability obligations	5,655	5,655
	$ 13,769	$ 8,817

As at December 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.

22. GUARANTEES

The Company indemnifies its directors and officers against claims and damages that may be incurred in the performance of their services to the Company. Liability insurance has been purchased with respect to the Company's directors and officers.

23. PROVISIONS

The Company's insurance risk retention meets the IFRS definition of provisions, a liability with uncertain timing or amount. The insurance risk retention was previously recorded as other long-term liability and the current portion recorded in accounts payable and accrued liabilities on the consolidated statements of financial position, is now reclassified to provisions.

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

	Insurance Risk Retention	Warranty	Total
January 1, 2017	$ 19,656	66,543	86,199
Assumed as a result of business acquisitions	—	475	475
Additions	8,462	43,436	51,898
Amounts used/realized	(5,372)	(29,745)	(35,117)
Unwinding of discount and effect of changes in the discount rate	—	(8)	(8)
Exchange rate differences	—	(343)	(343)
December 31, 2017	$ 22,746	$ 80,358	$ 103,104
Additions	12,032	32,711	44,743
Amounts used/realized	(10,274)	(36,332)	(46,606)
Unwinding of discount and effect of changes in the discount rate	—	(82)	(82)
Exchange rate differences	—	(375)	(375)
	24,504	76,280	100,784
Less current portion	3,000	32,838	35,838
December 30, 2018	$ 21,504	$ 43,442	$ 64,946

24. SUPPLEMENTARY EXPENSE INFORMATION

	Fiscal 2018	Fiscal 2017
Employee benefit expense	$ 365,142	$ 342,078
Depreciation of plant and equipment	32,840	27,906
Amortization of intangible assets	34,956	29,696

The expenses listed above are included in cost of sales and sales, general and administration costs and other operating expenses.

25. CURRENT PORTION OF LONG TERM LIABILITIES

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

	December 30, 2018	December 31, 2017 (restated note 2.3)
Deferred revenue (note 12)	$ 31,859	$ 27,255
Provisions (note 23)	35,838	37,838
Other long-term liabilities	—	981
Deferred compensation obligation (note 9)	4,677	15,724
Obligations under finance leases (note 8)	7,936	4,685
	$ 80,310	$ 86,483