November 12, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS AND 39-WEEKS ENDED SEPTEMBER 29, 2019

Information in this Management's Discussion and Analysis ("MD&A") relating to the financial condition and results of operations of NFI Group Inc. ("NFI") is supplemental to, and should be read in conjunction with, NFI's unaudited interim condensed consolidated financial statements (including notes) (the "Financial Statements") for the 13-week period and the 39-week period ended September 29, 2019 ("2019 Q3" and "2019 Q3 YTD", respectively).

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 December 31, 2018 to December 29, 2019 ("Fiscal 2019")			Period from January 1, 2018 to December 30, 2018 ("Fiscal 2018")		
	Period End Date		# of Calendar Weeks	Period End Date		# of Calendar Weeks
Quarter 1	March 31, 2019	("2019 Q1")	13	April 1, 2018	("2018 Q1")	13
Quarter 2	June 30, 2019	("2019 Q2")	13	July 1, 2018	("2018 Q2")	13
Quarter 3	September 29, 2019	("2019 Q3")	13	September 30, 2018	("2018 Q3")	13
Quarter 4	December 29, 2019	("2019 Q4")	13	December 30, 2018	("2018 Q4")	13
Fiscal year	December 29, 2019		52	December 30, 2018		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"), NFI Holdings Luxembourg s.a.r.l., and Alexander Dennis Limited and its affiliated entities (collectively, "ADL") 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 September 29, 2019, 62,419,078 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.

Buses manufactured by New Flyer and ADL's single and double deck buses are classified as "transit buses". ARBOC manufactures body-on-chassis or "cutaway" and "medium-duty" buses that service transit, paratransit, and shuttle applications. Collectively, transit buses, medium-duty buses and cutaways, are referred to as "buses".

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) one or 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.

All of the data presented in this MD&A with respect to 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 production slot, being one 30-foot, 35-foot, 40-foot, 45-foot heavy-duty transit bus, one double deck 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, funding may not continue to be available to the Company's customers at current levels or at all; the Company's business is affected by economic factors and adverse developments in economic conditions which could have an adverse effect on the demand for the Company's products and the results of its operations; currency fluctuations could adversely affect the Company's financial results or competitive position; interest rates could change substantially, materially impacting the Company's revenue and profitability; an active, liquid trading market for the Shares may cease to exist, which may limit the ability of shareholders to trade Shares; the market price for the Shares may be volatile; if securities or industry analysts do not publish research or reports about the Company or if their reports are inaccurate or unfavorable to the Company or its business, or if they adversely change their recommendations regarding the Shares or if the Company's results of operations do not meet their expectations, the Share price and trading volume could decline. In addition, other risk factors may include entrance of new competitors; failure of the ratification of the United States-Mexico-Canada Agreement (USMCA) could be materially adverse to NFI; current requirements under "Buy America" regulations may change and/or become more onerous or suppliers' "Buy America" content may change; the implications from the exit of United Kingdom (UK) from the European Union (commonly referred to as "Brexit") could have a materially negative impact on the Company's UK business, operations and sales from the UK into the European Union and the Company may have to modify its UK business practices in order to attempt to mitigate such impact and such mitigation steps may not be effective; failure of the Company to comply with the disadvantaged business enterprise ("DBE") program requirements or the failure to have its DBE goals approved by the FTA; absence of fixed term customer contracts; exercise of options and customer suspension or termination for convenience; United States content bidding preference rules may create a competitive disadvantage; local content bidding preferences in the United States may create a competitive disadvantage; requirements under Canadian content policies may change and/or become more onerous; operational risk, dependence on limited sources or unique sources of supply; dependence on supply of engines that comply with emission regulations; a disruption, termination or alteration of the supply of vehicle chassis or other critical components from third-party suppliers could materially adversely affect the sales of certain of the Company's products; the Company's profitability can be adversely affected by increases in raw material and component costs as well as the imposition of tariffs and surtaxes on material imports; the Company may incur material losses and costs as a result of product warranty costs, recalls and remediation of buses; production delays may result in liquidated damages under the Company's contracts with its customers; catastrophic events may lead to production curtailments or shutdowns; the Company may not be able to successfully renegotiate collective bargaining agreements when they expire and may be adversely affected by labour disruptions and shortages of labour; the Company's operations are subject to risks and hazards that may result in monetary losses and liabilities not covered by insurance or which exceed its insurance coverage; the Company may be adversely affected by rising insurance costs; the Company may not be able to maintain performance bonds or letters of credit required by its contracts or obtain performance bonds and letters of credit required for new contracts; the Company is subject to litigation in the ordinary course of business and may incur material losses and costs as a result of product liability claims; the Company may have difficulty selling pre-owned coaches and realizing expected resale values; the Company may incur costs in connection with provincial, state or federal regulations relating to axle weight restrictions and vehicle lengths; the Company may be subject to claims and liabilities under environmental, health and safety laws; dependence on management information systems and cyber security risks; the Company's ability to execute its strategy and conduct operations is dependent upon its ability to attract, train and retain qualified personnel, including its ability to retain and attract executives, senior management and key employees; the Company may be exposed to liabilities under applicable anti-corruption laws and any determination that it violated these laws could have a material adverse effect on its business; the Company's risk management policies and procedures may not be fully effective in achieving their intended purposes; internal controls over financial reporting, disclosure controls and procedures; ability to successfully execute strategic plans and maintain profitability; development of competitive or disruptive products, services or technology; development and testing of new products; acquisition risk; third-party distribution/ dealer agreements; availability to the Company of future financing; the Company may not be able to generate the necessary amount of cash to service its existing debt, which may require the Company to refinance its debt; the Company's substantial consolidated indebtedness could negatively impact the business; the restrictive covenants in the Company's credit facilities could impact the Company's business and affect its ability to pursue its business strategies; payment of dividends is not guaranteed; a significant amount of the Company's cash is distributed, which may restrict potential growth; NFI is dependent on its subsidiaries for all cash available for distributions; future sales or the possibility of future sales of a substantial number of Shares may impact the price of the Shares and could result in dilution; if the Company is required to write down goodwill or other intangible assets, its financial condition and operating

results would be negatively affected; income tax risk, investment eligibility and Canadian Federal Income Tax risks; the effect of comprehensive U.S. tax reform legislation on the NF Holdings and its U.S. subsidiaries (the “NF Group”), whether adverse or favorable, is uncertain; certain U.S. tax rules may limit the ability of NF Group to deduct interest expense for U.S. federal income tax purposes and may increase the NF Group’s tax liability; certain financing transactions could be characterized as “hybrid transactions” for U.S. tax purposes, which could increase the NF Group’s tax liability. NFI cautions that this list of factors is not exhaustive. These factors and other risks and uncertainties are discussed in NFI’s press releases, Annual Information Form 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, ADJUSTED EARNINGS PER SHARE, REGIONS INCLUDING: NORTH AMERICA, UK AND EUROPE, ASIA PACIFIC, AND OTHER

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. These adjustments include 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 recoveries relating to business acquisition, fair value adjustment to acquired subsidiary company's inventory and deferred revenue, proportion of the total return swap realized, equity settled stock-based compensation, recovery of currency transactions, prior year sales tax provision, release of provision related to purchase accounting and gain on bargain purchase of subsidiary company.

“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, proportion of total return swap, recovery on currency transactions, prior year sales tax provision, gain on release of provision related to purchase accounting, 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, depreciation of right-of-use assets 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 leases, other long-term liabilities 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: fair value adjustments of total return swap, unrealized foreign exchange loss or gain, unrealized gain or loss on the interest rate swap, portion of the total return swap realized, costs associated with assessing strategic and corporate initiatives, non-recurring costs or recoveries relating to business acquisition, fair value adjustment to acquired subsidiary company's inventory and deferred revenue, equity settled stock-based compensation, gain or loss on disposal of property, plant and equipment, gain on bargain purchase option, past service costs, recovery on currency transactions, prior year sales tax provision, gain on release of provision related to purchase accounting.

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 to Adjusted EBITDA, based on the Financial Statements, has been provided under the headings “Reconciliation of Net Earnings to Adjusted EBITDA”. 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.

Effective December 31, 2018, the Company has adopted IFRS 16, which specifies how to recognize, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases. This MD&A separately presents 2019 Q3 information, excluding the impact of IFRS 16 in areas where the impact is significant. See "Critical Accounting Estimates and Judgments" below.

References to NFI's geographic regions for the purpose of reporting global revenues are as follows: North America refers to Canada, United States, and Mexico; United Kingdom and Europe refer to the United Kingdom and Europe; Asia Pacific refers to Hong Kong, Malaysia, Singapore, Australia, and New Zealand; and the Other category includes any sales that do not fall into the categories above.

2019 Third Quarter Highlights

During the third quarter of 2019 the Company was primarily focused on executing its work-in-progress ("WIP") reduction plan while also continuing to complete integration activities with its new subsidiary ADL. 2019 Q3 was the first full period to include ADL results within the Company's operations and as such there are significant variances between 2018 Q3 results. In order to provide context on ADL's operations, management has provided proforma Fiscal 2018, 2019 Q1 and 2019 Q2 (pre-and post-acquisition), and 2019 Q3 results within this MD&A. While ADL's revenue, earnings before interest and taxes ("EBIT") and EBITDA for 2019 Q3 were lower than 2018 Q3, they were within management's expectations as the variance year-over-year was primarily due to the conversion to IFRS that impacted revenue recognition and timing of vehicle deliveries. ADL's last twelve months ("LTM") revenue, EBIT and EBITDA for 2019 Q3 LTM were very similar to the 2018 Q3 LTM results with some variance between quarters due to the timing and location of vehicle deliveries.

Following the acquisition of ADL, the Company now delivers an even wider variety of vehicles, including: single deck, double deck and articulated transit buses (in some cases just bus bodies), motor coaches, low-floor cutaways and medium duty buses, across various geographic jurisdictions, with different selling prices and margin profiles. Given this change, management feels that certain historic performance metrics (such as average selling price per EU and Adjusted EBITDA per EU) are no longer appropriate performance metrics for the business going forward. Management has adjusted this MD&A appropriately to reflect this change.

The Company continued to pay its quarterly dividend of C$0.425 per share (annual rate of C$1.70 per share) resulting in a payout ratio for 2019 Q3 YTD of 51.2%. The board of directors of NFI ("the Board") expects to maintain dividends at this rate on a quarterly basis, although such dividends are not assured.

Other significant events during the quarter included:

- ADL's backlog was added to NFI Group's existing backlog. The addition as of June 30, 2019 was 2,031 EUs (1,226 firm and 805 option EUs) with total value of $930.5 million. Going forward ADL's backlog will be included within NFI's consolidated results.
- The Company delivered a record 1,392 EUs to customers in North America, UK and Europe and Asia Pacific markets.
- The Company received new orders (firm and option) for 1,035 EUs from several key customers and 229 option EUs were converted to firm orders.
- The 2019 Q3 Canada and U.S. active Bid Universe increased as expected by management. Active bids have increased by 1,629 EUs compared to 2018 Q3 and 747 EUs compared to 2019 Q2, representing an increase of 50% and 18%, respectively.
- NFI continued to realize upon its strategy to be the leader in zero-emission, battery-electric buses ("ZEBs") and coaches with deliveries from ADL into London and Brighton in the UK and new orders in the UK and New Zealand. New Flyer delivered ZEBs into Toronto, Los Angeles, Laval and San Diego with new orders in New York, NY.
- MCI continued to focus on the rollout of its new products with regular production of its D45 CRT LE vehicle, deliveries of its 35-foot J3500 coach and demos of its battery-electric D45 CRTe LE variant in California.
- ADL participated at Busworld, the world's largest bus and coach trade show in Brussels, where it exhibited its Enviro500 Class 2 configuration and demonstrated its interactive AD24 platform. The event was well received by UK, European and international customers.

During the third quarter the Company continued to recover from challenges experienced during the first half of 2019 including: new product launches, chassis supply disruption, internal and external supply delays, missed production days and postponed customer acceptance inspections, that led to delayed deliveries and growth of WIP. Management is focused on lowering its WIP and while some positive progress was achieved during 2019 Q3, the Company did see growth in its ending WIP due to timing of

deliveries, ramp-up on a major customer contract and growing inventory within ADL and MCI to prepare for fourth quarter delivery activity. Management expects the fourth quarter to be a busier period for vehicle deliveries as it reduces carried WIP at New Flyer and MCI, and ADL and MCI fulfill committed and expected contracts.

2019 Q3 revenue of $725.4 million increased by 19.8% from 2018 Q3 primarily as a result of the addition of ADL and higher coach deliveries, offset by lower transit bus and low-floor cutaway vehicle sales. Consolidated EBIT for 2019 Q3 of $20.3 million decreased by 61.5% compared to 2018 Q3. The decline was primarily driven by the acquisition of ADL which included a $20.1 million unwind of ADL inventory fair market value adjustments, increased overall Company SG&A and added $9.1 million of intangible asset amortization.

2019 Q3 Adjusted EBITDA of $76.9 million increased from $70.3 million in 2018 Q3, primarily as a result of the addition of ADL, higher coach deliveries and lower corporate costs offset by the impact of the lower transit and low-floor cutaway vehicle deliveries and increased operational costs to complete vehicles. NFI's third quarter financial results were impacted by several factors that are discussed in detail throughout this MD&A. Several of these items are expected to be one-time or non-recurring, while others had a non-cash impact. Net loss of $1.0 million was impacted by one-time or unusual adjustments that included:

- a charge of $11.6 million related to the unwind of fair value adjustments related to the valuation of ADL acquired assets, and
- a $1.6 million mark-to-market loss on the interest rate swap; and
- a $3.1 million mark-to-market loss on foreign exchange.

After adjusting for these items and other smaller expenses, Adjusted Net Earnings was $15.0 million.

2019 Third Quarter Financial Results

On the acquisition date, of May 28, 2019 (the "Acquisition Date") the Company, through its wholly owned subsidiary NFI International Limited, acquired 100% of the voting equity interest in ADL for £295.1 million. In order to provide context on ADL's operations, management has provided adjusted historical Fiscal 2018, 2019 Q1 and 2019 Q2 financial information in the table below and has used this information to present proforma 2018 Q3 and 2018 Q3 YTD information to provide comparative including ADL's results. For further detail on the prior year results of ADL, please see Appendix A contained within this MD&A.

The information below, with the exception of the column entitled "2019 Q2 (Post-acquisition)" do not form a part of NFI's consolidated reporting.

ADL Select Adjusted Historical Information
(Unaudited, U.S. dollars in thousands unless noted)

	2018 Q1	2018 Q2	2018 Q3	2018 Q4	Fiscal 2018	2019 Q1	2019 Q2	2019 Q2 (Pre-Acquisition)	2019 Q2 (Post-Acquisition)
ADL's deliveries (units)	365	765	682	625	2437	556	393	235	158
ADL's adjusted historical revenue - Manufacturing[1]	£ 80,632	£160,240	£148,074	£134,393	£523,339	£131,507	£ 85,615	£ 53,240	£ 32,375
ADL's adjusted historical revenue - Aftermarket[1]	£ 18,513	£ 17,714	£ 16,976	£ 18,115	£ 71,318	£ 18,820	£ 17,864	£ 10,892	£ 6,972
Total Revenue	£ 99,145	£177,954	£165,050	£152,508	£594,657	£150,327	£103,479	£ 64,132	£ 39,347
Average exchange rate for the period	1.391	1.363	1.304	1.288		1.301	1.280	1.292	1.267
Total Revenue	$137,911	$242,551	$215,225	$196,430	$792,117	$195,575	$132,712	$ 82,859	$ 49,853
Reconciliation of earnings (loss) before interest and income tax expense to Adjusted EBITDA									
ADL's adjusted historical earnings (loss) before interest and income tax	£ (4,370)	£ 10,212	£ 9,912	£ 7,371	£ 23,125	£ 9,947	£ (9,094)	£ (6,270)	£ (2,824)
Depreciation and amortization	1,071	1,450	1,288	1,225	5,034	2,040	2,048	1,273	775
Acquisition related costs	—	—	—	—	—	—	2,486	1,509	977
Gain/(loss) on sale of assets	26	(161)	(82)	(150)	(367)	(98)	(23)	(28)	5
ADL's Adjusted EBITDA	£ (3,273)	£ 11,501	£ 11,118	£ 8,446	£ 27,792	£ 11,889	£ (4,583)	£ (3,516)	£ (1,067)
Average exchange rate for the period	1.391	1.363	1.304	1.288		1.301	1.280	1.292	1.267
ADL's Adjusted EBITDA	$ (4,553)	$ 15,676	$ 14,498	$ 10,878	$ 36,499	$ 15,468	$ (5,895)	$ (4,543)	$ (1,352)

[1] All ADL information related to the periods before the Acquisition Date are based on the audited financial statements of ADL provided to NFI, which were prepared on the basis of UK GAAP. NFI has not independently verified such statements. ADL's previously reported results have been conformed to IFRS, as presented above. See Appendix A.

The following table presents NFI proforma comparative information including ADL pre-acquisition results.

Consolidated Revenue (Unaudited, U.S. dollars in millions)	**2019 Q3**	**2018 Q3** Proforma	**2018 Q3**	**2019 Q3 YTD**	**2019 Q3 YTD** Proforma	**2018 Q3 YTD** Proforma	**2018 Q3 YTD**
Deliveries	1510	1832	1150	3763	4554	5280	3468
Manufacturing	$ 616.0	$ 705.3	$ 512.2	$ 1,675.4	$ 1,915.3	$ 2,089.1	$ 1,565.4
Aftermarket	109.3	115.3	93.2	300.3	338.9	363.7	291.7
Total Revenue	$ 725.3	$ 820.6	$ 605.4	$ 1,975.7	$ 2,254.2	$ 2,452.8	$ 1,857.1

Reconciliation of earnings before interest and income tax expense to Adjusted EBITDA

	2019 Q3	2018 Q3 Proforma	2018 Q3	2019 Q3 YTD	2019 Q3 YTD Proforma	2018 Q3 YTD Proforma	2018 Q3 YTD
Adjusted historical earnings before interest and income tax expense	$ 20.3	$ 68.8	$ 55.9	$ 101.5	106.3	$ 197.7	$ 176.9
Depreciation and amortization	32.1	17.8	16.1	73.4	77.6	$ 54.9	49.8
Acquisition related costs	20.5	—	—	42.5	44.4	0.4	0.4
Gain/(loss) on sale of assets	(0.1)	0.2	0.2	(0.1)	(0.1)	$ —	0.3
Other adjustments [1]	4.1	$ (2.0)	$ (2.0)	0.9	0.9	$ 8.1	$ 8.1
Adjusted EBITDA	$ 76.9	$ 84.7	$ 70.2	$ 218.3	$ 229.2	$ 261.1	$ 235.5

[1] Other adjustments to Adjusted EBITDA are disclosed in the table Reconciliation of Net Earnings to Adjusted EBITDA.

The information in the table above is provided for 2019 and 2018 to allow readers to understand the impact of ADL's performance as it relates to the Company. The commentary in the next two paragraphs are related to ADL only.

Revenues for 2019 Q3 decreased by $95.2 million compared to 2018 Q3 proforma. 2019 Q3 YTD proforma decreased by $198.7 million compared to 2018 Q3 YTD proforma. Decreased revenue is to due lower activity in the Asia Pacific market, primarily Hong Kong, and timing of deliveries in North America and the UK. During 2018 Q3 Hong Kong activity was particularly elevated due to the timing of deliveries to meet new emissions regulations. Compared to 2018 ADL expects to have significantly higher activity during 2019 Q4 as it fulfills its current order book with the majority of deliveries in the UK and Europe market that are within management's expectations.

Adjusted EBITDA for 2019 Q3 decreased by $7.8 million compared to 2018 Q3 proforma. 2019 Q3 YTD proforma decreased by $31.9 million compared to 2018 Q3 YTD proforma. Quarterly and YTD EBITDA decreased for the reasons discussed above related to revenue.

As a result of the acquisition of ADL, management has updated its presentation of revenue information on the geographic basis of "North America", "United Kingdom and Europe", "Asia Pacific", and "Other" geographies in order to reflect the global nature of the Company's operations as a result of the acquisition of ADL. Comparative period information has been restated to reflect this presentation.

Consolidated Revenue (Unaudited, U.S. dollars in millions)	**2019 Q3**	**2018 Q3**	**2019 Q3 YTD**	**2018 Q3 YTD**
Transit buses	$ 448.8	$ 369.3	$ 1,272.2	$ 1,124.2
Motor coaches	141.0	112.8	334.5	361.2
Medium-duty and cutaway	13.8	11.1	31.7	32.4
New transit bus, coach medium-duty and cutaway	$ 603.6	$ 493.2	$ 1,638.4	$ 1,517.8
Pre-owned coach	11.4	15.5	32.3	35.3
Fiberglass reinforced polymer components	1.1	3.5	4.7	12.3
Manufacturing	$ 616.0	$ 512.2	$ 1,675.4	$ 1,565.4
Aftermarket	109.3	93.2	300.3	291.7
Total Revenue	$ 725.3	$ 605.4	$ 1,975.7	$ 1,857.1
North America	$ 589.2	$ 605.4	$ 1,797.6	$ 1,857.1
United Kingdom and Europe	107.5	—	145.7	—
Asia Pacific	28.3	—	31.7	—
Other	0.3	—	0.6	—
Total Revenue	$ 725.3	$ 605.4	$ 1,975.7	$ 1,857.1
Deliveries				
Transit buses	1,052	692	2,584	2,102
Motor coaches	266	215	647	689
Medium-duty and cutaway	74	128	239	396
Total new build	1,392	1,035	3,470	3,187
Pre-owned coach	118	115	293	281
	1,510	1,150	3,763	3,468

Manufacturing revenue for 2019 Q3 increased by $103.8 million, or 19.8% compared to 2018 Q3. The increase is related to acquisition of ADL. Also contributing to the increase is higher volumes in the motor coach business. Partially offsetting this increase are lower volumes of 8.3% in the Company's manufacturing businesses prior to the acquisition of ADL ("legacy manufacturing businesses"). Deliveries were lower in each of transit bus and cutaway products, before considering the addition of ADL.

During the year the Company has experienced production and delivery challenges as a result of new product launches, ARBOC's chassis supply disruption, extended start-up of KMG (the Company's new parts fabrication facility), international external supply issues and missed production days due to inclement weather. The result of these factors all lead to missed production and deliveries and growth in WIP and finished goods. As WIP is reduced to normal levels, these sales are expected to be realized in future periods, primarily in the final quarter of 2019 and the first quarter of 2020.

Manufacturing revenue for 2019 Q3 YTD increased by $110.1 million, or 7.0% compared to 2018 Q3 YTD. The increase is related to acquisition of ADL. Partially offsetting the increase is lower volumes of 11.1% in the Company's legacy manufacturing businesses. The lower volumes were impacted by the same factors noted above.

Revenue from aftermarket operations in 2019 Q3 increased by $16.2 million, or 17.4% compared to 2018 Q3. The acquisition of ADL contributed to increased revenue during 2019 Q3. This is partially offset by lower sales volumes in the legacy aftermarket business (being the aftermarket business prior to the acquisition of ADL) due to competitive pressure in the private motor coach market. Also contributing to decreased revenue is variation in customer programs resulting in changes in sales mix.

Revenue from aftermarket operations in 2019 Q3 YTD increased by $8.6 million, or 3.0% compared to 2018 Q3 YTD. The acquisition of ADL contributed to increased revenue during 2019 Q3 YTD. This is partially offset by lower sales volumes in the legacy aftermarket business due to competitive pressure in the private motor coach market. In 2018 Daimler canceled MCI's Distribution Rights Agreement ("DRA") relating to the distribution of Daimler's Setra motor coaches and parts. The cancellation of the DRA resulted in a $4.0 million decrease in the aftermarket parts revenue in 2019 Q3 YTD compared to 2018 Q3 YTD.

Gross Margins (Unaudited, U.S. dollars in millions)	2019 Q3	2019 Q3 (excluding IFRS 16)	2018 Q3	2019 Q3 YTD	2019 Q3 YTD (excluding IFRS 16)	2018 Q3 YTD
Manufacturing	53.3	52.7	78.8	189.2	188.2	254.2
Aftermarket	32.8	33.5	25.7	86.3	88.3	81.7
Total Gross Margins	$ 86.1	$ 86.2	$ 104.5	$ 275.5	$ 276.5	$ 335.9
As a percentage of sales						
Manufacturing	8.7%	8.6%	15.4%	11.3%	11.2%	16.2%
Aftermarket	30.0%	30.6%	27.6%	28.8%	29.4%	28.0%
	11.9%	11.9%	17.3%	13.9%	14.0%	18.1%

Manufacturing gross margins for 2019 Q3, excluding the impact of IFRS 16, of $52.7 million (8.6% of revenue), decreased by $26.1 million, or 33.1% compared to $78.8 million (15.4% of revenue) for 2018 Q3. Included in manufacturing gross margin is a charge of $20.2 million for 2019 Q3 and $28.1 million 2019 Q3 YTD related to the unwind of fair value adjustments related to the valuation of acquired assets. Also contributing to the decrease in gross margin is amortization of intangible assets of $9.1 million related to the acquisition of ADL. This decreased gross margin as a percentage of revenue by 4.8% for 2019 Q3 and 2.2% for 2019 Q3 YTD.

Manufacturing gross margin for 2019 Q3 YTD, excluding the impact of IFRS 16, of $188.2 million (11.2% of revenue) decreased by $66.0 million, or 26.0% compared to $254.2 million (16.2% of revenue) for 2018 Q3 YTD.

In addition to the unwind of the fair value adjustment, the decrease in gross margin as a percentage of revenue for both the 2019 Q3 and 2019 Q3 YTD periods is primarily caused by temporary production inefficiencies within both the motor coach and transit bus businesses. These inefficiencies are due to learning curves related to the production of new products, startup costs at the Company's KMG parts fabrication facility and higher remediation costs.

Gross margins from Aftermarket operations in 2019 Q3, excluding the impact of IFRS 16, of $33.5 million (30.6% of revenue) increased by $7.8 million, or 30.1% compared to 2018 Q3 gross margins of $25.7 million (27.6% of revenue). The increase as a percentage of revenue is primarily due to favourable sales mix.

Gross margins from Aftermarket operations in 2019 Q3 YTD, excluding the impact of IFRS 16, of $88.3 million (29.4% of revenue) increased by $6.5 million, or 8.0% compared to gross margins of $81.7 million (28.0 % of revenue) in 2018 Q3 YTD. The increase as a percentage of revenue is primarily due to favourable sales mix.

Gross margins from Aftermarket operations were negatively impacted by the unwinding of fair value adjustments related to the valuation of acquired assets by $0.8 million for both 2019 Q3 YTD. This decreased gross margin as a percentage of revenue by 1.7% for 2019 Q3 YTD.

Earnings before Interest and Income Taxes ("EBIT") (Unaudited, U.S. dollars in millions)	2019 Q3	2019 Q3 (excluding IFRS 16)	2018 Q3	2019 Q3 YTD	2019 Q3 YTD (excluding IFRS 16)	2018 Q3 YTD
Manufacturing	$ 15.7	$ 14.3	$ 47.1	$ 81.2	$ 79.5	$ 151.6
Aftermarket	12.5	12.4	15.4	48.1	47.7	51.0
Corporate	(7.9)	$ (7.9)	$ (6.6)	(27.8)	(27.8)	(25.6)
Total EBIT	$ 20.3	$ 18.8	$ 55.9	$ 101.5	$ 99.4	$ 177.0
EBIT % of revenue						
Manufacturing	2.5%	2.3%	9.2%	4.8%	4.7%	9.7%
Aftermarket	11.4%	11.3%	16.6%	16.0%	15.9%	17.5%
Total	2.8%	2.6%	9.2%	5.1%	5.0%	9.5%

Consolidated EBIT, excluding the impact of IFRS 16, for 2019 Q3 decreased by $37.1 million, or 66.4% compared to 2018 Q3. In addition to the factors discussed within the gross margin analysis, higher SG&A expenses which mostly related to the acquisition of ADL further contributed to the difference. These amounts were partially offset by lower incentive plans expense.

Consolidated EBIT, excluding the impact of IFRS 16, for 2019 Q3 YTD decreased by $77.6 million, or 43.8% compared to 2018 Q3 YTD. The reasons for the year-to-date decrease are the same as discussed above for the quarterly results.

Net Earnings (loss) and Adjusted Net Earnings (Unaudited, U.S. dollars in millions)	**2019 Q3**	**2019 Q3** (excluding IFRS 16)	**2018 Q3** (restated[1])	**2019 Q3 YTD**	**2019 Q3 YTD** (excluding IFRS 16)	**2018 Q3 YTD** (restated[1])
Manufacturing	$ 14.5	$ 14.4	$ 35.2	$ 51.8	$ 54.1	$ 108.2
Aftermarket	11.1	11.2	15.3	48.1	48.5	51.5
Corporate	(26.6)	(26.6)	(13.5)	(76.3)	(76.3)	(42.6)
Net earnings (loss)	$ (1.0)	$ (1.0)	$ 37.0	$ 23.6	$ 26.3	$ 117.1
Net earnings (loss) per share	$ (0.02)	$ (0.02)	$ 0.59	$ 0.38	$ 0.43	$ 1.87
Adjusted Net Earnings	$ 15.0	$ 15.1	$ 36.2	$ 70.8	$ 73.5	$ 122.3
Adjusted Net earnings per share	$ 0.24	$ 0.24	$ 0.58	$ 1.15	$ 1.30	$ 1.96

[1] Amounts were restated to reallocate net earnings for corporate activities. Previously all amounts were included within the Manufacturing and Aftermarket segments.

Net loss during 2019 Q3, excluding the impact of IFRS 16, decreased by $38.0 million, or 103% compared to 2018 Q3.

In addition to the items noted within the revenues, gross margins, and EBIT analysis above, increased costs of financing of $12.0 million due to higher average Revolver draws to finance the ADL acquisition, resulting in an increase in interest on long-term debt of $6.3 million; $4.4 million mark-to-market loss on the interest rate swap in 2019 Q3; interest related to leases capitalized under IFRS 16; and higher other banking charges contributed to the remaining increase in finance costs. The above costs are related to corporate activities.

Net earnings during 2019 Q3 YTD, excluding the impact of IFRS 16, decreased by $90.8 million, or 77.5% compared to 2018 Q3 YTD.

In addition to the items noted within the revenues, gross margins, and EBIT analysis above, increased costs of financing of $45.0 million due to a $26.5 million mark-to-market loss on the interest rate swap in 2019 Q3 YTD compared to a $1.4 million gain in 2018 Q3 YTD; higher average Revolver draws resulting in an increase in interest on long-term debt of $11.1 million; interest related to leases capitalized under IFRS 16; and higher other banking charges contributed to the remaining increase in finance costs. The above costs are related to corporate activities.

The loss on interest rate swap relates to risk management activities management has undertaken to reduce the uncertainty on its cost of borrowing. The interest rate swap entered into fixes the interest rate which the Company will pay on $600 million of its long-term debt at 2.27% plus an applicable margin. The Company's accounting policy is to not designate these types of instruments as accounting hedges. As a result, interest rate increases will result in mark-to-market gains, while interest rate decreases will result in mark-to-market losses.

Partially offsetting these decreases were lower taxes during the quarter and YTD, primarily due to lower earnings before taxes within each of Manufacturing and Aftermarket operating segments.

Adjusted EBITDA (Unaudited, U.S. dollars in millions)	**2019 Q3**	**2019 Q3** (excluding IFRS 16)	**2018 Q3** (restated[1])	**2019 Q3 YTD**	**2019 Q3 YTD** (excluding IFRS 16)	**2018 Q3 YTD** (restated[1])
Manufacturing	$ 61.5	$ 58.0	$ 61.0	$ 170.4	$ 162.4	$ 203.2
Aftermarket	16.4	15.6	17.2	56.1	53.9	56.3
Corporate	(1.0)	(1.0)	(8.0)	(8.2)	(8.2)	(24.0)
	$ 76.9	$ 72.6	$ 70.2	$ 218.3	$ 208.1	$ 235.5
Adjusted EBITDA as a percent of revenue						
Manufacturing	10.0%	9.4%	11.9%	10.1%	9.7%	13.0%
Aftermarket	15.0%	14.3%	18.5%	18.7%	18.0%	19.3%
	10.6%	10.0%	11.6%	11.1%	10.5%	12.7%

[1] Amounts were restated to reallocate net earnings for corporate activities. Previously all amounts were included within the Manufacturing and Aftermarket segments.

2019 Q3 Adjusted EBITDA of $76.9 million increased from $70.2 million in 2018 Q3, primarily as a result of the addition of ADL, higher coach deliveries and lower corporate costs offset by the impact of the WIP reduction plan and lower deliveries of transit and low-floor cutaway vehicles.

Manufacturing Adjusted EBITDA for 2019 Q3 increased by $0.5 million, or 0.7% compared to 2018 Q3. Manufacturing Adjusted EBITDA for 2019 Q3 YTD decreased by $32.8 million, or 16.1% compared to 2018 Q3 YTD.

Adjusted EBITDA from Aftermarket operations in 2019 Q3 decreased by $0.8 million, or 5.0% compared to 2018 Q3. The decreased Adjusted EBITDA is mostly the result of increased SG&A as a result of the acquisition of ADL. Adjusted EBITDA from Aftermarket operations in 2019 Q3 YTD decreased by $0.2 million, or 0.3% compared to 2018 Q3 YTD.

The reduction in Corporate expenses resulted in an improvement of $7.0 million or 88.0% compared to 2018 Q3, and $15.7 million, or 65.6% compared to 2018 Q3 YTD.

Free Cash Flow (Unaudited, dollars in millions)	**2019 Q3**	**2018 Q3**	**2019 Q3 YTD**	**2018 Q3 YTD**
Free Cash Flow (U.S. dollars)	$ 37.6	$ 28.8	$ 111.4	$ 117.2
Free Cash Flow (CAD dollars)	$ 49.8	$ 37.2	$ 147.3	$ 152.6
Declared dividends (CAD dollars)	$ 26.5	$ 23.4	$ 78.9	$ 67.4
Payout Ratio (Declared dividends divided by Free Cash Flow)	53.2%	62.9%	53.6%	44.2%

Free cash flow in 2019 Q3 of $37.6 million increased by $8.8 million, or 30.6%, when compared to 2018 Q3, primarily due to higher Adjusted EBITDA, a reduction in capital expenditures, and lower income tax expense, partially offset by increased interest expense. The amount of dividends declared increased by 13.2% in 2019 Q3 compared to 2018 Q3 as a result of the higher dividend per Share rate partially offset by a lower number of Shares outstanding as a result of the purchase of Shares by Company under the Normal Course Issuer Bid ("NCIB") in 2018 Q3, 2018 Q4, and 2019 Q1.

The Company made no purchases of Shares under the NCIB in 2019 Q3.

The liquidity position of $86.6 million as at September 29, 2019 represents cash and the amount available under the five-year senior unsecured revolving credit facility (the "Credit Facility") as compared to a liquidity position of $355.4 million at December 30, 2018. Management believes these funds, together with Share 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 to provide funds for its financing requirements, capital expenditures, dividend payments and other operational needs for the foreseeable future.

The decrease in liquidity primarily relates to the acquisition of ADL, the repurchase of Shares under the NCIB, and changes in non-cash working capital. Changes in non-cash working capital of $142.4 million are primarily a result of seasonality and the delivery disruption previously discussed and are expected to be temporary in nature.

Property, Plant and Equipment ("PPE") expenditures (Unaudited, U.S. dollars in millions)	**2019 Q3**	**2018 Q3**	**2019 Q3 YTD**	**2018 Q3 YTD**
PPE expenditures	13.9	25.2	34.1	67.2
Less PPE expenditures funded by leases	(0.5)	(5.0)	(3.5)	(16.3)
Cash acquisition of PPE reported on statement of cash flows	13.4	20.2	30.6	50.9

PPE cash expenditures for 2019 Q3 decreased by $11.3 million or 44.9% compared to 2018 Q3. Capital expenditures for 2019 are planned to be lower than in 2018 due to the completion of major projects.

Management believes that ROIC is an important ratio and metric that can be used to assess investments against their related earnings and capital utilization. ROIC during the 2019 Q3 LTM, excluding the impact of IFRS 16, was 10.6%, as compared to 14.8% during 2018 Q3 LTM. The decrease was primarily a result of material investments made by KMG's parts fabrication facility, changes in non-cash working capital and renovations and expansion of New Flyer's Anniston, AL facility, higher inventory and lower Adjusted EBITDA as previously explained in this MD&A.

Return on Invested Capital (Unaudited, U.S. dollars in thousands)	**September 29, 2019**	**September 29, 2019** (Excluding IFRS 16)	**September 30, 2018**
Total assets	$ 2,946.2	$ 2,844.0	$ 2,050.2
Total long-term liabilities	1,543.5	1,434.5	807.3
ROIC LTM[1, 2]	10.2%	10.6%	14.8%

(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 September 29, 2019 was 31%. The ETR used in the ROIC calculation at September 30, 2018 was 31%.

2019 Third Quarter Order Activity

Demand for Transit Buses and Motor Coaches

The Company’s "Bid Universe" metric estimates active public competitions in Canada and the United States and attempts to provide an overall indication of 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.

Management was encouraged by third quarter growth in the Company's Bid Universe. At the end of 2019 Q3, the total Bid Universe was 27,495 EUs, an increase of 10.7% from Q2 2019, while the active Bid Universe increased by 18.0% in the quarter. The Bid Universe EUs fluctuate significantly from quarter-to-quarter based on public tender activity procurement and award processes.

	Bids in Process (EUs)	**Bids Submitted (EUs)**	**Active EUs**	**Forecasted Industry Procurement over 5 Years (EUs)[1]**	**Total Bid Universe (EUs)**
2018 Q3	955	2,323	3,278	18,084	21,362
2018 Q4	670	2,061	2,731	20,694	23,425
2019 Q1	1,350	2,039	3,389	21,143	24,532
2019 Q2	1,231	2,929	4,160	20,686	24,846
2019 Q3	1,216	3,691	4,907	22,588	27,495

(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. This estimate includes potential activity for New Flyer and MCI vehicles, but excludes potential ARBOC and ADL U.S. and Canadian sales.

Procurement of heavy-duty transit buses and motor coaches by the U.S. and Canadian public sector is typically accomplished through formal multi-year contracts, while procurement by the private sector, in North America, the UK and Europe and Asia Pacific 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.

ADL does not currently have a Bid Universe metric similar to New Flyer and MCI's North American Bid Universe for the UK and European or Asia Pacific markets. Management does not believe a similar Bid Universe metric for those markets is suitable given that the majority of customers in those regions are private operators who make annual purchase decisions. The overall UK market declined from 2015 to 2018 and year-to-date in 2019, but is expected to be flat in 2020 with recovery in 2021 due to customers fleet recovery plans. In Asia Pacific, the Hong Kong market is highly cyclical and following busier periods in 2015 through 2018 the market has declined as expected to stable annual deliveries. New Zealand and Singapore remain cyclical markets and both markets saw increased activity in 2017 and 2018.

Order activity

New orders (firm and options) during 2019 Q3 totaled 1,035 EUs. The new firm and option orders awarded to the Company for 2019 Q3 LTM were 3,276 EUs. The Company was also successful at converting 229 EUs of options during 2019 Q3 to firm orders, which contributed to the 1,280 EUs of options converted to firm orders during 2019 Q3 LTM.

	New Orders in Quarter (Firm and Option EUs)	**LTM New Orders (Firm and Option EUs)**	**Option Conversions in Quarter (EUs)**	**LTM Option Conversions (EUs)**
2018 Q3	757	5,426	274	1,458
2018 Q4	857	3,763	575	1,795
2019 Q1	909	3,936	126	1,480
2019 Q2	474	2,998	350	1,325
2019 Q3	**1,035**	**3,276**	**229**	**1,554**

Options

In 2019 Q3, 71 option EUs expired, compared to 34 option EUs that expired during 2019 Q2.

A significant number of public transit contracts in the U.S. and Canada 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 YTD**	**2020**	**2021**	**2022**	**2023**	**2024**	**Total**
A) Options Expired (EUs)	965	504	550	331	741	353						3,444
B) Options Exercised (EUs)	1,149	1,339	2,064	1,404	1,795	705						8,456
C) Current Options by year of expiry (EUs)						347	1,583	1,676	2,325	823	527	7,281
D) Conversion rate % = B / (A+B)	**54%**	**73%**	**79%**	**81%**	**71%**							

The Company's conversion rate can vary significantly from quarter-to-quarter and should be looked at on an annual or LTM basis. The 2019 Q3 LTM conversion rate was 78%.

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 or defined list 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. Once a customer purchases a bus under one of these agreements, the purchase is recorded as a firm order.

The Company's 2019 Q3 LTM Book-to-Bill ratio (defined as new firm orders and exercised options divided by new deliveries) was 90%, an increase of 6% from 84% in 2018 Q3 LTM.

In addition, 395 EUs of new firm and option orders were pending from customers at the end of 2019 Q3, 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 buses sold primarily to U.S. and Canadian public customers and private operators in the UK and Europe. The majority of the backlog relates to New Flyer transit buses for public clients with some of the backlog consisting of units from MCI, ADL 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 4% of total backlog.

	2019 Q3			2019 Q2			2018 Q4		
	Firm Orders	Options	Total	Firm Orders	Options	Total	Firm Orders	Options	Total
Beginning of period	3,306	6,691	9,997	3,576	7,011	10,587	3,423	7,687	11,110
Acquired Backlog (ADL)(1)	1,226	805	2,031	—	—	—	—	—	—
New orders	950	85	1,035	410	64	474	785	73	858
Options exercised	229	(229)	0	350	(350)	0	575	(575)	0
Shipments(2)	(1,392)	—	(1,392)	(1,029)	—	(1,029)	(1,126)	—	(1,126)
Cancelled/expired	(6)	(71)	(77)	(1)	(34)	(35)	(8)	(1)	(9)
End of period	**4,313**	**7,281**	**11,594**	**3,306**	**6,691**	**9,997**	**3,649**	**7,184**	**10,833**
Consisting of:									
Heavy-duty transit buses	3,295	6,480	9,775	2,406	5,921	8,327	3,024	6,177	9,201
Motor coaches	664	801	1,465	630	770	1,400	468	1,007	1,475
Cutaway and medium-duty buses	354	—	354	270	—	270	157	—	157
Total Backlog	**4,313**	**7,281**	**11,594**	**3,306**	**6,691**	**9,997**	**3,649**	**7,184**	**10,833**

(1) ADL's acquired backlog was as of the period ended June 30, 2019
(2) Shipments do not include delivery of pre-owned coaches as these coaches are not included in the backlog.

At the end of 2019 Q3, the Company's total backlog (firm and options) of 11,594 EUs (valued at $5.5 billion) has increased compared to 9,997 EUs (valued at $4.8 billion) at the end of 2019 Q2. The summary of the values is provided below.

	2019 Q3		2019 Q2		2018 Q4	
		Equivalent Units		Equivalent Units		Equivalent Units
Total firm orders	$ 1,877.3	4,313	1,626.3	3,306.0	1,937.5	3,649
Total options	3,598.6	7,281	3,189.0	6,691	3,414.1	7,184
Total backlog	**$ 5,475.9**	**11,594**	**4,815.3**	**9,997**	**5,351.6**	**10,833**

Outlook

Management remains optimistic about the Company's overall global end markets as public transit remains a primary method of transportation for millions of users, the age of the population increases and numerous jurisdictions execute strategies to migrate to zero-emission propulsion technology for buses and coaches. While the Company's overall outlook is positive, it does expect increased competition, softness in some geographic regions and timing of the ZEB transition to impact project awards, deliveries and margins during the remainder of 2019 and Fiscal 2020. Detailed outlook on each of the Company's product lines is provided below.

Management continues to view its transformative acquisition of ADL as a platform for future international growth as ADL is the largest bus and coach provider in the UK and the global market leader in double deck vehicles, with an established presence in numerous geographic jurisdictions.

Management initiated a WIP reduction plan at New Flyer and MCI during 2019 Q3 and while some progress was made, primarily the stabilization of operations at KMG, management expects the majority of the WIP reduction will occur in 2019 Q4, with some of the excess vehicle deliveries carrying over to the first quarter of 2020. The vehicles impacted by the WIP reduction plan have been contractually sold, so their ultimate delivery is a matter of timing, rather than market conditions.

For 2019 Q4, NFI is focused on its WIP reduction plan, delivering on its private motor coach and UK transit bus delivery targets and maintaining its position within the Aftermarket segment. Management expects that under its current deliveries plan, the Company will deliver 2,020 EUs, or 36.8%, of its annual deliveries in the fourth quarter.

2019 Delivery Guidance

Management has updated its Fiscal 2019 delivery guidance to 5,490 EUs, a decrease of 170 EUs, or 3.0%, to reflect the impact of New Flyer and MCI's WIP reduction plan carrying over into the first quarter of 2020 and fewer ARBOC medium-duty deliveries. This decrease is primarily a timing issue as the majority of the vehicles removed from 2019's expected deliveries are already contractually obligated and will be delivered in 2020.The cash impact of these deliveries will be realized in 2020, net of any previously received progress payments. There have been no changes to ADL's anticipated deliveries, with expectations for significant deliveries during 2019 Q4. Management's new guidance is expected to comprise the following vehicle types:

	Heavy Duty Transit (NF and ADL)	Motor Coach (MCI and Plaxton)	Medium-Duty and Cutaway (ARBOC)	Total
Previous Guidance	4,095 EUs	1,140 EUs	425 EUs	5,660 EUs
Adjustments	(65) EUs	(30) EUs	(75) EUs	(170) EUs
Revised Guidance	4,025 EUs	1,100 EUs	350 EUs	5,490 EUs

Management notes that ADL vehicle revenue and gross margins vary significantly by geographic region and product type and recommends that readers review the adjusted ADL historical Fiscal 2018 and Fiscal 2019 financial information provided within this MD&A for further context regarding ADL's potential impact on NFI's Fiscal 2019 results. Management also cautions readers that the consolidated NFI Group's annual delivery schedule has an element of seasonality due to the nature of each unique market segment and the varied annual production and vacation schedule of each production facility. With the addition of ADL, management now expects seasonality to become even more pronounced in the fourth quarter of the year.

Based on expenditures made to date and anticipated expenditures in 2019 Q4, management now expects Property, Plant and Equipment expenditures for the Company (including ADL) to be no more than $45 million for Fiscal 2019, down from previous guidance of $50 million to $55 million. Management continues to anticipate that the Company's ETR for Fiscal 2019 will be in the range of 29% to 31%, outside of one-time non-deductible impacts related to the acquisition of ADL and the impact of reduced earnings before taxes noted in the gross margin section. Looking forward the Company's ETR is expected to experience some decline as its global activities are reflected in the financial results.

Management is focused on deleveraging as current levels are above expectations due to higher than normal WIP. Management believes that the Company's combined financial results and WIP reduction execution will enable it to return to its target of 2.0x to 2.5x net debt to Adjusted EBITDA within 18 to 24 months without impacting the Company's dividend policy. Management is focused on decreasing WIP, improving deliveries and moving past 2019 production challenges to continue to generate significant positive free cash flow, generate returns for shareholders and realize upon investments made.

As the Company looks forward to Fiscal 2020 management expects to see revenue and Adjusted EBITDA growth driven by a full-year of ADL's operations being reflected in the financial results, reduction of the Company's excess WIP, delivery of firm vehicle orders and conversion of option backlog. Competitive pressures and product mix in the legacy heavy-duty transit and coach businesses are expected to have an adverse impact on margins. The headwinds are amplified in the short-term as numerous public transit agencies evaluate

their ZEB transition plans resulting in smaller orders with fewer options. Based on managements market data the core heavy-duty transit fleets continue to age and management feels the Company is very well positioned to support transit agencies in North America and the UK and Europe as they transition to ZEBs and expect NFI to be the beneficiary of revenue and margin growth as that change takes place over the longer-term.

Heavy-Duty Transit

Within North America, aging fleets, strong economic conditions, multi-year U.S. federal funding and expected customer fleet replacement plans support management's expectation that heavy-duty transit bus procurement will remain healthy in 2020 and 2021, although orders are expected to be smaller in size with fewer options. Management's view is supported by a significant increase in active bids within its Bid Universe and the average size of those bids. Active bids increased by 18.0% from 2019 Q2 and by 49.7% over 2018 Q3, while the total Bid Universe of 27,495 EUs, increased by 10.7% from 2019 Q2 and 28.7% from 2018 Q3. This increase and ongoing discussions with public transit agencies continues to support management's belief that there will be an increase in the number of requests for proposals, public tenders and awards issued in 2019 Q4 and Fiscal 2020, when compared to 2018 and 2019 YTD activity, but management warns that the timing of these awards may take several quarters and will be impacted by the transition to ZEBs. In addition, the margins on new contracts will likely be lower than those experienced during recent historic periods due to increased competition and product mix.

The UK market is expected be flat in 2019, with potential for growth in 2020, as large commercial operators and smaller regional players increase orders after several years of low activity. In addition to this increased activity, the challenges of one of ADL's major UK competitors is also expected to provide opportunities for ADL to grow its industry leading market share in the UK.

Asia Pacific markets continue to vary by jurisdiction. The highly cyclical Hong Kong heavy-duty transit market is coming off peak demand in 2017 and 2018 and moving to lower, but stable deliveries, which are expected to continue for several years. The previously mentioned challenges of one of ADL's primary competitors is also creating opportunities for ADL in Hong Kong. Management believes NFI will maintain and potentially grow its market leadership position for double deck vehicles in Hong Kong. While the overall Hong Kong market has decreased activity, contract wins in Singapore and further penetration into the New Zealand market are expected to help ADL's Asia Pacific business.

ZEBs continue to be an area of growing focus for New Flyer and ADL heavy-duty transit customers. ZEBs are currently being built in all New Flyer facilities, consisting of 5% of New Flyer's total backlog and representing a higher portion, approximately 18%, of the active bids New Flyer is currently pursuing. NFI is strengthening its leadership position in battery-electric vehicles within North America by being the only manufacturer to offer 35-foot, 40-foot, 45-foot, 60-foot and double deck battery electric vehicles and 40-and 60-foot fuel cell electric vehicles. NFI has ZEB contracts with some of the largest transit agencies in North America including Toronto, Boston, Minneapolis, San Diego, New York, Seattle, Los Angeles and Montreal. New Flyer's ZEB vehicles that are currently in service have been performing well, delivering clean, safe and reliable transportation on the proven Xcelsior platform. NFI also offers infrastructure support to transit agencies through New Flyer Infrastructure Solutions™, a service aimed at providing safe, reliable, smart and sustainable charging and mobility solutions to public transit customers. ADL's current ZEB offering includes the UK's leading double deck battery-electric vehicle, which topped 100 vehicles sold during 2019 Q3, and single-deck battery-electric variants. ADL has received orders for ZEBs from a number of operators in London, key regional customers including Manchester and Glasgow, and customers in New Zealand and North America. MCI is continuing the development and testing of its battery-electric motor coach and ARBOC has recently launched an electrification program for the Equess medium-duty bus.

Management believes its turn-key solution of high-quality vehicles, infrastructure advisory and project management services and unmatched aftermarket support makes NFI the partner of choice for transit agencies who are exploring the addition of ZEBs to their fleet. In addition, the combination of NFI's electric vehicle ("EV") expertise with ADL's global reach and existing partnerships is expected to generate long-term benefits as NFI strengthens its leadership position. While NFI is well positioned for the transition to ZEBs, it expects that during 2020 and 2021 vehicle awards will be smaller in size and with fewer options as transit agencies incorporate battery-electric vehicles into their fleets. NFI will leverage its backlog strength during this transition while the Company's Book-to-Bill ratio may remain below 100%.

Motor Coach

Management anticipates that North American public motor coach demand will remain relatively stable for the remainder of 2019 and 2020 while overall private motor coach demand will decline. Within the private market, management anticipates MCI should continue to protect and potentially gain share based on its market leading and expanding product portfolio, plus from the expansion of sales to the growing employee shuttle segment. With fewer opportunities in the market, management expects competitive factors will place increased pressure on margins in the North American coach market during 2020 and potentially into 2021. ADL's coach manufacturing business, Plaxton (which builds coach bodies on third-party chassis), is primarily focused on the UK market which is expected to experience modest growth in 2019 and 2020. Sales in other markets are expected to be small when compared to UK sales, but Plaxton continues to explore opportunities to grow deliveries from exports into new markets.

MCI and Plaxton closely monitor pre-owned coach valuations and ensure that products obtained through trades are accurately reflected at their fair market value on the Company's balance sheet. Following a period of transition in 2018 after the DRA with Daimler to distribute SETRA motor coaches in North America was terminated and several operators went through bankruptcies and liquidated their fleets, MCI has seen better average sale prices within its pre-owned coach segment during 2019 Q3.

Low-floor Cutaway and Medium-duty

Management believes the overall demand for low-floor cutaway and medium-duty buses remains encouraging, driven by changing population demographics, which could increase the demand for ARBOC's market leading products. While demand for low-floor cutaway vehicles remains strong, the chassis supply disruption experienced in 2019 Q1 for certain ARBOC vehicles significantly impacted ARBOC's production in the first half of 2019. Although chassis are now being received regularly, management does not expect to recover the anticipated low-floor cutaway deliveries in 2019. To help alleviate future chassis supply disruption and to provide flexibility when choosing suppliers, ARBOC is actively testing and manufacturing its low-floor cutaway vehicles on chassis from a different manufacturer. ARBOC's primary focus is on its medium-duty transit bus offerings, which generates a higher gross margin than its low-floor cutaway vehicles and has been very well received by numerous public and private customers. This customer support is highlighted by ARBOC having achieved a record backlog during 2019 Q3.

Aftermarket

NFI Parts continues to focus on numerous strategic initiatives to counter adverse market pressures, a decreasing installed base from the expected retirement of NABI and Orion buses, and increasing 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. During 2019 Q3 NFI Parts absorbed ARBOC's cutaway bus parts business which management believes provides an additional revenue synergy. ADL's Parts business continues to focus on enhancing its online parts and services platform ("AD 24") which provides industry leading aftermarket support to customers in the UK. ADL Parts revenue is also expected to grow as ADL expands its installed base. Due to the nature of the parts business, parts sales remain difficult to forecast resulting in quarter-to-quarter volatility which at times can be material.

ADL Operational Opportunities

Management is exploring numerous opportunities to combine ADL's strengths in engineering, sales, new product development and third-party manufacturing with NFI's expertise in Operational Excellence, insourcing, fabrication and systems management. Initial efforts are primarily aimed at the North American market where NFI seeks to optimize its product portfolio, customer strategy and geographic footprint. Management is pursuing numerous initiatives and investigating potential longer-term financial benefits.

In addition to these operational initiatives, NFI is working closely with ADL's leadership team to explore new market growth opportunities while continuing to maintain or expand market share in existing jurisdictions. ADL's 2018 contract win in Berlin is expected to provide meaningful financial benefit starting in 2021 and a platform for future European growth.

Management believes ADL's operations have less exposure to the potential implications of the UK withdrawing from the European Union than many of its peers within the automobile or specialty vehicle industries given it currently has minimal sales to other member states of the European Union. While the outcome of Brexit remains unclear, with several possible scenarios, management is taking steps to mitigate potential risks including: diversifying its supplier base, and continuing to use its hedging strategy to manage foreign exchange volatility, which it has done since the original 2016 Brexit referendum.

SELECTED QUARTERLY AND ANNUAL FINANCIAL AND OPERATING INFORMATION

The following selected unaudited interim condensed 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.

Fiscal Period	Quarter	Revenue	Earnings from Operations	Net earnings (loss)	Adjusted EBITDA[1]	Earnings (loss) per Share
2019 - Actual						
	Q3	$ 725,347	$ 25,200	$ (1,085)	$ 76,868	$ (0.02)
	Q2	683,353	37,000	8,507	81,122	0.14
	Q1	566,995	40,906	16,149	60,302	0.26
	Total	**$ 1,975,695**	**$ 103,106**	**$ 23,571**	**$ 218,292**	**$ 0.38**
2019 - Excluding the impact of IFRS 16						
	Q3	$ 725,347	23,766	$ (985)	$ 72,663	$ (0.02)
	Q2	683,353	36,718	9,687	77,561	0.15
	Q1	566,995	40,543	17,540	57,837	0.29
	Total	**$ 1,975,695**	**$ 101,027**	**$ 26,242**	**$ 208,061**	**$ 0.42**
2018	Q4	$ 662,020	$ 60,570	$ 42,815	$ 79,868	$ 0.69
	Q3	605,342	53,469	37,031	70,245	0.59
	Q2	673,025	72,063	49,740	91,400	0.81
	Q1	578,634	51,753	30,356	73,841	0.48
	Total	**$ 2,519,021**	**$ 237,855**	**$ 159,942**	**$ 315,354**	**$ 2.56**
2017	Q4	$ 654,560	$ 71,495	$ 76,118	$ 90,488	$ 1.21
	Q3	541,721	55,141	34,577	70,998	0.55
	Q2	613,430	70,363	42,769	85,090	0.69
	Q1	572,147	59,203	37,904	71,450	0.61
	Total	**$ 2,381,858**	**$ 256,202**	**$ 191,368**	**$ 318,026**	**$ 3.06**

(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.

COMPARISON OF THIRD QUARTER 2019 RESULTS

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

	2019 Q3	2018 Q3	2019 Q3 YTD	2018 Q3 YTD	52-weeks Ended September 29, 2019	52-Weeks Ended September 30, 2018
Statement of Earnings Data						
Revenue						
North America	$ 499,896	$ 512,178	$ 1,525,342	$ 1,565,347	$ 2,101,863	$ 2,128,469
United Kingdom and Europe	91,109	—	122,849	—	122,849	—
Asia Pacific	25,003	—	27,254	—	27,254	—
Other	—	—	—	—	—	—
Manufacturing operations	616,008	512,178	1,675,445	1,565,347	2,251,966	2,128,469
North America	89,311	93,164	272,251	291,654	357,751	383,092
United Kingdom and Europe	16,423	—	22,898	—	22,898	—
Asia Pacific	3,294	—	4,472	—	4,472	—
Other	311	—	629	—	629	—
Aftermarket operations	109,339	93,164	300,250	291,654	385,750	383,092
Total revenue	$ 725,347	$ 605,342	$ 1,975,695	$ 1,857,001	$ 2,637,716	$ 2,511,561
Earnings from operations	$ 25,200	$ 53,469	$ 103,106	$ 177,285	$ 163,676	$ 248,780
Earnings before interest and income taxes	20,300	55,874	101,504	176,940	162,909	247,214
Net earnings (loss)	(1,085)	37,031	23,571	117,127	66,386	193,245
Adjusted EBITDA(2)	$ 76,868	$ 70,245	$ 218,292	$ 235,486	$ 298,160	$ 325,974
Statement of Earnings Data, excluding IFRS 16						
Earnings from operations	$ 23,766	$ 53,469	101,027	177,285	161,598	$ 248,780
Earnings before interest and income taxes	$ 18,866	55,874	99,426	176,940	160,831	247,214
Net earnings (loss)	(985)	37,031	26,242	117,127	69,057	193,245
Adjusted EBITDA(2)	72,663	70,245	208,063	235,486	287,931	325,974
Capital expenditures	$ 13,872	$ 25,162	$ 34,139	$ 67,207	$ 56,330	$ 91,629

(Footnotes on page 23 and 24)

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, 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. See ADL Adjusted EBITDA reconciliation for information related to historical ADL performance on page 6.

(Unaudited, U.S. dollars in thousands)

	2019 Q3	2018 Q3	2019 Q3 YTD	2018 Q3 YTD	52-weeks Ended September 29, 2019	52-Weeks Ended September 30, 2018
Net earnings (loss)	(1,085)	37,031	23,571	117,127	66,386	193,245
Addback[1]						
Income taxes	2,355	11,905	15,879	42,778	23,812	33,737
Interest expense	19,030	6,938	62,054	17,036	72,711	20,233
Amortization	32,055	16,106	73,435	49,779	91,452	65,786
Loss (gain) on disposition of property, plant and equipment	(93)	244	(98)	275	(106)	303
Fair value adjustment for total return swap[7]	1,432	(541)	676	918	6,305	(17)
Unrealized foreign exchange loss (gain) on non-current monetary items and forward foreign exchange contracts	4,993	(2,649)	1,700	70	3,011	937
Costs associated with assessing strategic and corporate initiatives[4]	342	—	13,685	137	13,685	2,949
Past service costs[9]	(1,671)	—	(1,671)	6,482	(1,671)	6,482
Non-recurring recoveries relating to business acquisition[5]	—	—	—	—	—	(525)
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue[6]	20,158	—	28,848	266	28,848	532
Proportion of the total return swap realized[8]	(800)	732	(423)	(757)	(4,805)	264
Equity settled stock-based compensation	152	479	1,129	1,375	1,163	1,722
Recovery on currency transactions[13]	—	—	(4,287)	—	(4,287)	—
Prior year sales tax provision [14]	—	—	3,794	—	3,794	—
Release of provisions related to purchase accounting[11]	—	—	—	—	(2,138)	—
Gain on bargain purchase of subsidiary company	—	—	—	—	—	326
Adjusted EBITDA[2]	76,868	70,245	218,292	235,486	298,160	325,974
Adjusted EBITDA is comprised of:						
Manufacturing	$ 61,460	$ 61,026	$ 170,381	$ 203,153	$ 243,199	$ 283,609
Aftermarket	16,374	17,239	56,149	56,316	73,498	74,183
Corporate	(966)	(8,020)	(8,249)	(23,983)	(18,537)	(31,818)

See page 23 and 24 for footnotes.

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 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)	2019 Q3	2018 Q3	2019 Q3 YTD	2018 Q3 YTD	52-Weeks Ended September 29, 2019	52-Weeks Ended September 30, 2018
Net cash generated from operating activities	$ (27,558)	$ 42,225	$ (65,153)	$ 107,804	$ 2,187	$ 115,176
Changes in non-cash working capital items[3]	57,800	2,183	176,706	32,352	178,698	75,080
Interest paid[3]	13,608	5,582	32,229	16,735	38,567	21,408
Interest expense[3]	(14,354)	(5,916)	(34,915)	(17,273)	(41,188)	(22,381)
Income taxes paid[3]	13,548	14,780	32,939	60,928	45,093	89,434
Current income tax expense[3]	(7,094)	(13,998)	(30,495)	(46,768)	(39,990)	(50,727)
Principal portion of finance lease payments	(4,613)	(1,523)	(11,056)	(3,578)	(12,603)	(4,647)
Cash capital expenditures	(13,349)	(20,206)	(30,607)	(50,847)	(50,751)	(71,899)
Proceeds from disposition of property, plant and equipment	146	160	174	225	184	243
Costs associated with assessing strategic and corporate initiatives[7]	342	—	13,685	137	13,685	2,949
Non-recurring transitional costs relating to business acquisition[8]		—	—	—	—	(525)
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue [9]	20,158	—	28,848	266	28,848	532
Defined benefit funding[4]	3,022	5,911	6,171	21,633	6,779	26,658
Defined benefit expense[4]	(1,544)	(1,378)	(4,527)	(10,578)	(6,282)	(11,916)
Past service costs[11]	(1,671)	—	(1,671)	6,482	(1,671)	6,482
Proportion of the total return swap[10]	(800)	732	(423)	(756)	(4,805)	265
Recovery on currency transactions[13]	—	—	(4,287)	—	(4,287)	—
Prior year sales tax provision [14]	—	—	3,794	—	3,794	—
Gain on release of provision related to purchase accounting[12]		—	—	—	(2,138)	—
Foreign exchange gain (loss) on cash held in foreign currency[5]	(37)	210	(19)	483	(308)	431
Free Cash Flow (US$)[1]	$ 37,604	$ 28,762	$ 111,393	$ 117,245	$ 153,812	$ 176,563
U.S. exchange rate[2]	1.3244	1.2945	1.321	1.3018	1.3336	1.2858
Free Cash Flow (C$)[1]	49,803	37,232	147,276	152,630	205,127	227,046
Free Cash Flow per Share (C$)[6]	0.8302	0.5923	2.4232	2.4429	3.3543	3.6272
Declared dividends on Shares (C$)	26,528	23,395	78,902	67,454	101,791	87,912
Declared dividends per Share (C$)[6]	$ 0.4252	$ 0.3722	$ 1.2809	$ 1.0796	$ 1.6485	$ 1.4045

(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$) are determined by dividing Free Cash Flow by the total number of all issued and outstanding Shares using the weighted average over the period. The weighted average number of Shares outstanding for 2019 Q3 was 62,391,178 and 62,860,422 for 2018 Q3. The weighted average number of Shares outstanding for 2019 Q3 YTD and 2018 Q3 YTD are 61,601,132 and 62,481,052, respectively. The weighted average number of Shares outstanding for the 52-Weeks ended September 29, 2019 and September 30, 2018 are 61,749,622 and 62,594,831, respectively. Per Share calculations for declared dividends (C$) 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 the 52-week period ended July 1, 2018 and 2018 Q2 YTD net earnings. The revaluation of ADL's inventory included an adjustment of $20.2 million in 2019 Q3 and $28.8 million in 2019 Q3 YTD. These revaluation adjustments relate to purchase accounting as a result of the related acquisitions.

(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 of 2018, 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.

(13) Recovery of prior period banking fees related to foreign exchange transactions.

(14) Provision for sales taxes as result of an ongoing state tax review.

RECONCILIATION OF NET EARNINGS TO ADJUSTED NET EARNINGS

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 (loss) 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 (loss) per Share and Adjusted Earnings per Share)	**2019 Q3**	**2018 Q3**	**2019 Q3 YTD**	**2018 Q3 YTD**	**52-Weeks Ended September 29, 2019**	**52-Weeks Ended September 30, 2018**
Net earnings (loss)	$ (1,085)	37,031	$ 23,571	$ 117,127	$ 66,386	$ 193,245
Net earnings (loss), excluding IFRS 16	(985)	37,031	26,242	117,127	69,057	193,245
Adjustments, net of tax (10)						
Fair value adjustments of total return swap(7)	892	(384)	404	652	4,678	(12)
Unrealized foreign exchange (gain) loss	3,143	(1,881)	1,016	50	2,011	653
Unrealized (gain) loss on interest rate swap	1,571	431	15,836	(1,052)	17,518	(2,955)
Portion of the total return swap realized(8)	(496)	519	(253)	(537)	(3,578)	184
Costs associated with assessing strategic and corporate initiatives(4)	342	—	13,685	97	13,685	2,054
Non recurring costs (recoveries) relating to business acquisition(5)	—	—	—	—	—	(366)
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue(6)	11,624	—	17,236	189	17,236	371
Equity settled stock-based compensation	44	340	675	976	701	1,199
Gain on disposition of property, plant and equipment	(56)	173	(59)	195	(65)	211
Past service costs(9)	(998)	—	(998)	4,602	(998)	4,515
Recovery on currency transactions(12)	207	—	(2,561)	—	(2,561)	—
Prior year sales tax provision (13)	(183)	—	2,267	—	2,267	—
Gain on release of provision related to purchase accounting(11)	—	—	—	—	(1,623)	—
Adjusted Net Earnings	15,005	36,229	70,819	122,299	115,657	199,099
Adjusted Net Earnings, excluding IFRS 16	$ 15,105	$ 36,229	$ 73,490	$ 122,299	$ 118,328	$ 199,099
Earnings (loss) per Share (basic)	$ (0.02)	$ 0.59	$ 0.38	$ 1.87	$ 1.08	$ 3.09
Earnings (loss) per Share (fully diluted)	$ (0.02)	$ 0.59	$ 0.38	$ 1.86	$ 1.07	$ 3.06
Adjusted Earnings per Share (basic)	$ 0.24	$ 0.58	$ 1.15	$ 1.96	$ 1.87	$ 3.18
Adjusted Earnings per Share (fully diluted)	$ 0.24	$ 0.57	$ 1.15	$ 1.94	$ 1.87	$ 3.21
Earnings (loss) per Share and Adjusted Earnings per Share, excluding IFRS 16						
Earnings (loss) per Share (basic)	$ (0.02)	$ 0.59	$ 0.43	$ 1.87	$ 1.12	$ 3.09
Earnings (loss) per Share (fully diluted)	$ (0.02)	$ 0.59	$ 0.42	$ 1.86	$ 1.11	$ 3.06
Adjusted Earnings per Share (basic)	$ 0.24	$ 0.58	$ 1.19	$ 1.96	$ 1.92	$ 3.18
Adjusted Earnings per Share (fully diluted)	$ 0.24	$ 0.57	$ 1.19	$ 1.94	$ 1.91	$ 3.21

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 earnings within various jurisdictions 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 ADL's inventory included an adjustment of $20.2 million in 2019 Q3 after-tax value of $11.6 million and $28.1 million in 2019 Q3 YTD after-tax value of $17.2 million. ARBOC's inventory included an adjustment of $0.3 million or $0.2 million after-tax in 2018 Q2 YTD. These revaluation adjustments relate to purchase accounting as a result of the related acquisitions.
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 normalized for the acquisition of ADL, in each respective quarterly 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.
12. Recovery of prior period banking fees related to foreign exchange transactions.
13. Provision for sales taxes as a result of an ongoing state tax review.

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 maintain a strong balance sheet. This policy has established guidelines that are reviewed by the Board on a quarterly basis and provides targets for maintaining financial flexibility, business investment, and return of capital to shareholders.

Maintaining Financial Flexibility

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

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

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

Within the capital allocation policy, management has targeted to maintain leverage between 2 times and 2.5 times Adjusted EBITDA, excluding IFRS 16. The Company however, has and may in the future increase leverage beyond this range to fund accretive acquisitions that are capable of reducing leverage through earnings.

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 maximum total leverage ratio under the Credit Facility is 3.75 and increases to 4.25 for one year following a material acquisition. The acquisition of ADL on May 28, 2019 was a material acquisition. The terms of the Credit Facility provide relief from the impact of changes in accounting policies, including the impact of IFRS 16. At September 29, 2019, the Company was in compliance with the ratios.

	September 29, 2019	December 30, 2018
Total Leverage Ratio (must be less than 4.25 for one year following a material acquisition)	3.75	2.09
Interest Coverage Ratio (must be greater than 3.00)	9.08	13.39

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 was C$207.1 million in 2019 Q3 LTM compared to declared dividends of C$101.8 million during this period. For 2018 Q3 LTM, Free Cash Flow was C$227.0 million compared to declared dividends of C$87.9 million. This resulted in a payout ratio of 49.1% in 2019 Q3 LTM compared to 38.7% in 2018 Q3 LTM.

As a result of 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.

The Company made no purchases of shares under the NCIB in 2019 Q3.

On June 11, 2018, the Company announced that the TSX had accepted a notice filed by the Company of its intention to implement the previous Normal Course Issuer Bid (the "Former 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 Former NCIB. Pursuant to the amended Former NCIB, the Company was 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 have completed its repurchases prior to such date. The Former NCIB expired June 13, 2019.

On June 12, 2019 the Company announced that the TSX had accepted a notice filed by the Company of its intention to implement the NCIB to replace the Former NCIB to repurchase its Shares through the facilities of the TSX and any alternative Canadian trading systems on which the Shares are traded. The Company is permitted to repurchase for cancellation up to 5,357,914 Shares, representing approximately 10% of the outstanding public float of Shares on June 4, 2018. The Company is permitted to repurchase Shares commencing on June 17, 2019 up to June 16, 2020, 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 2019 Q1, the Company repurchased 232,100 Shares under the Former NCIB at an average price of C$31.82 per Share for a total repurchase of C$7.4 million. The Company canceled 986,075 Shares during 2019 Q1, including 232,100 Shares purchased in 2019 Q1 and 753,975 Shares that were purchased in 2018 Q4. There were no shares purchased or canceled under the Former NCIB or the NCIB during 2019 Q2 or Q3. During 2019 Q3 YTD, the Company repurchased 232,100 Shares at an average price of C$31.82 per Share for a total repurchase of C $7.4 million. The Company canceled 986,075 Shares during 2019 Q3 YTD, including 232,100 Share purchased in 2019 Q3 YTD and 753,975 Shares that were purchased in 2018 Q4.

Total Capital Distributions to Shareholders (U.S. dollars in millions)	**2019 Q3**	**2018 Q3**	**2019 Q3 YTD**	**2018 Q3 YTD**
Dividends paid	$ 20.3	$ 17.9	$ 56.4	$ 50.1
NCIB Share repurchase	—	21.4	5.7	29.6
Total	$ 20.3	$ 39.3	$ 62.1	$ 79.7

Results of Operations

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

(Unaudited, U.S. dollars in thousands)	**2019 Q3**	**2019 Q3** (excluding IFRS 16)	**2018 Q3**	**2019 Q3 YTD**	**2019 Q3 YTD** (excluding IFRS 16)	**2018 Q3 YTD**
Manufacturing Revenue	616,008	616,008	512,178	1,675,445	1,675,445	1,565,347
Aftermarket Revenue	109,339	109,339	93,164	300,250	300,250	291,654
Total Revenue	$ 725,347	$ 725,347	$ 605,342	$ 1,975,695	$ 1,975,695	$ 1,857,001
						0
Earnings from Operations	$ 25,200	$ 23,766	$ 53,469	$ 103,106	$ 101,027	$ 177,285
Earnings before interest and income taxes	20,300	18,866	55,874	101,504	99,425	176,940
Earnings before income tax expense	1,270	1,370	48,936	39,450	41,753	159,905
Net earnings (loss) for the period	(1,085)	(985)	37,031	23,571	26,242	117,127

Revenue

Manufacturing revenue for 2019 Q3 increased by $103.8 million, or 20.3% compared to 2018 Q3. The increase is related to the acquisition of ADL. Also contributing to the increase is higher volumes in the motor coach business. Partially offsetting this increase is lower volumes of 8.3% in the Company's manufacturing businesses prior to the acquisition of ADL ("legacy manufacturing businesses"). Deliveries were lower in each of transit bus, and cutaway products before considering the addition of ADL.

During the year the Company has experienced production and delivery challenges as a result of new product launches, ARBOC's chassis supply disruption, extended start-up of KMG, international external supply issues and missed production days due to inclement weather. The result of these factors all lead to missed production and deliveries and growth in WIP and finished goods. As WIP is reduced to normal levels, these sales are expected to be realized in future periods, primarily in the final quarter of 2019.

Manufacturing revenue for 2019 Q3 YTD increased by $110.1 million, or 7.0% compared to 2018 Q3 YTD. The increase is related to acquisition of ADL. Partially offsetting the increase is lower volumes of 11.1% in the Company's legacy manufacturing businesses. The lower volumes were impacted by the same factors noted above.

Revenue from aftermarket operations in 2019 Q3 increased by $16.2 million, or 17.4% compared to 2018 Q3. The acquisition of ADL contributed to increased revenue during 2019 Q3. This is partially offset by lower sales volumes in the legacy aftermarket business (being the aftermarket business prior to the acquisition of ADL) due to competitive pressure in the private motor coach market. Also contributing to decreased revenue is variation in customer programs resulting in changes in sales mix.

Revenue from aftermarket operations in 2019 Q3 YTD increased by $8.6 million, or 3.0% compared to 2018 Q3 YTD. The acquisition of ADL contributed to revenue during 2019 Q3 YTD. This is partially offset by lower sales volumes in the legacy aftermarket business due to competitive pressure in the private motor coach market. In 2018 Daimler canceled the DRA relating to the distribution of Daimler's Setra motor coaches and parts. The cancellation of the DRA resulted in a $4.0 million decrease in the aftermarket parts revenue in 2019 Q3 YTD compared to 2018 Q3 YTD.

Cost of sales

(Unaudited, U.S. dollars in thousands)	2019 Q3	2019 Q3 (excluding impact of IFRS 16)	2018 Q3	2019 Q3 YTD	2019 Q3 YTD (excluding IFRS 16)	2018 Q3 YTD
Manufacturing						
Direct cost of sales	$ 475,826	$ 475,826	$ 375,812	$ 1,266,410	$ 1,266,410	$ 1,146,313
Depreciation and amortization	29,471	27,339	43,282	65,715	59,481	120,411
Other overhead	57,407	60,174	14,306	154,160	161,326	44,423
Manufacturing cost of sales	$ 562,704	$ 563,339	$ 433,400	$ 1,486,285	$ 1,487,217	$ 1,311,147
As percent of Manufacturing Sales	91.4%	91.5%	84.6%	88.7%	88.8%	83.8%
Aftermarket						
Direct cost of sales	$ 73,926	$ 73,925	$ 65,655	$ 206,185	$ 206,185	$ 204,555
Depreciation and amortization	2,584	1,945	1,800	7,720	5,803	5,356
Aftermarket cost of sales	$ 76,510	$ 75,870	$ 67,455	$ 213,905	$ 211,988	$ 209,911
As percent of Aftermarket Sales	70.0%	69.4%	72.4%	71.2%	70.6%	72.0%
Total Cost of Sales	$ 639,214	$ 639,209	$ 500,855	$ 1,700,190	$ 1,699,205	$ 1,521,058
As percent of Sales	88.1%	88.1%	82.7%	86.1%	86.0%	81.9%

The consolidated cost of sales, excluding the impact of IFRS 16, for 2019 Q3 increased by $138.4 million or 27.6% compared to 2018 Q3.

Cost of sales from Manufacturing operations in 2019 Q3, excluding the impact of IFRS 16, were $563.3 million (91.5% of manufacturing operations revenue) compared to $433.4 million (84.6% of Manufacturing operations revenue) in 2018 Q3, an increase of $129.9 million or 30.0%. Cost of sales increased as a percentage of revenue as a result of overhead inefficiency and higher labour costs throughout the North America transit and coach businesses, the production of new products, and related production learning curves contributed to these increases. Additionally, continued startup costs and related inefficiencies related to KMG's parts fabrication facility contributed to the higher cost of sales as a percentage of revenues.

Cost of sales from Manufacturing operations in 2019 Q3 YTD, excluding the impact of IFRS 16 were $1,487.2 million (88.7% of manufacturing operations revenue) compared to $1,311.1 million (83.8% of Manufacturing operations revenue) in 2018 Q3 YTD, an increase of $176.1 million or 13.4%. Cost of sales increased as a percentage of revenue for the same reasons noted in the comparison of 2019 Q3 to 2018 Q3.

Fair value adjustments realized into the statement of net earnings (loss) and total comprehensive income (loss) within Manufacturing operations were $20.2 million for 2019 Q3 and $28.1 million 2019 Q3 YTD. The fair value adjustment relates to purchase accounting as a result of the ADL acquisition.

Cost of sales from Aftermarket operations in 2019 Q3, excluding the impact of IFRS 16 were $75.9 million (69.4% of Aftermarket revenue) compared to $67.5 million (72.4% of Aftermarket revenue) in 2018 Q3, an increase of $8.4 million.

Cost of sales from Aftermarket operations in 2019 Q3 YTD, excluding the impact of IFRS 16 were $212.0 million (70.6% of Aftermarket revenue) compared to $209.9 million (72.0% of Aftermarket revenue) in 2018 Q3 YTD, an increase of $2.1 million. The difference is consistent with the higher revenues.

Fair value adjustments realized into the statement of net earnings (loss) and total comprehensive income (loss) within Aftermarket operations were $0.8 million for 2019 Q3 YTD.

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

(Unaudited, U.S. dollars in thousands)	2019 Q3	2019 Q3 (excluding impact of IFRS 16)	2018 Q3	2019 Q3 YTD	2019 Q3 YTD (excluding impact of IFRS 16)	2018 Q3 YTD
Selling expenses	$ 6,818	$ 6,818	$ 4,685	$ 16,687	$ 16,687	$ 13,248
General and administrative expenses	55,096	56,534	43,530	143,215	146,279	136,255
Other costs	42	42	146	12,973	12,973	5,721
Total SG&A	$ 61,956	$ 63,394	$ 48,361	$ 172,875	$ 175,939	$ 155,224

The consolidated SG&A, excluding the impact of IFRS 16, for 2019 Q3 of $63.4 million (8.7% of consolidated revenue) increased by $15.0 million or 31.1% compared with $48.4 million (8.0% of consolidated revenue) in 2018 Q3. The increase is mostly related to the acquisition of ADL.

The consolidated SG&A, excluding the impact of IFRS 16, for 2019 Q3 YTD of $175.9 million (8.9% of consolidated revenue) increased by $20.7 million or 13.3% compared with $155.2 million (8.4% of consolidated revenue) in 2018 Q3 YTD. Other costs from acquisition related expenses of $13.6 million and additional SG&A expenses were the primary reason for the increase in overall SG&A expenses. These increases were partially offset by lower incentive plans expense.

Realized foreign exchange loss/gain

During 2019 Q3, the Company recorded a realized foreign exchange gain of $1.0 million compared to a loss of $2.7 million in 2018 Q3.

During 2019 Q3 YTD, the Company recorded a realized foreign exchange gain of $0.5 million compared to a loss of $3.4 million in 2018 Q3 YTD.

The Company uses foreign exchange forward contracts to buy various currencies in which it operates with U.S. dollars, Canadian dollars and British Pounds Sterling ("GBP"). The purchase of these currencies using foreign exchange forward contracts at favorable forward rates compared to the spot rates at settlement were the primary reason for the gains.

Earnings from operations

Consolidated earnings from operations in 2019 Q3, excluding IFRS 16 were $23.8 million (3.3% of consolidated revenue) compared to $53.5 million (8.8% of consolidated revenue) in 2018 Q3, a decrease of $29.7 million or 55.6%.

Losses from operations related to Manufacturing operations in 2019 Q3 were $5.9 million (-1.0% of Manufacturing revenue) compared to $45.2 million (8.8% of Manufacturing revenue) in 2018 Q3, a decrease of $51.1 million or 113.1%. Earnings from operations related to Manufacturing operations in 2019 Q3 YTD were $56.2 million (3.4% of Manufacturing revenue) compared to $147.0 million (9.4% of Manufacturing revenue) in 2018 Q3 YTD, a decrease of $90.8 million or 61.8%. The decrease as a percentage of revenues is primarily due to the production inefficiencies and the fair value adjustment described within the Cost of Sales section above.

Earnings from operations related to Aftermarket operations in 2019 Q3 YTD were $12.8 million (11.7% of Aftermarket revenue) compared to $15.4 million (16.6% of Aftermarket revenue), a decrease of $2.6 million or 16.9%. Earnings from operations related to Aftermarket operations in 2019 Q3 YTD were $48.4 million (16.1% of Aftermarket revenue) compared to $50.9 million (17.5% of Aftermarket revenue), a decrease of $2.5 million. The decrease as a percentage of revenues is primarily due to fair value adjustments within the Cost of Sales section above.

Unrealized foreign exchange gain/loss

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

(Unaudited, U.S. dollars in thousands)	2019 Q3	2018 Q3	2019 Q3 YTD	2018 Q3 YTD
Unrealized (gain) loss on forward foreign exchanges contracts	$ 3,596	$ (2,654)	$ (322)	$ 632
Unrealized (gain) loss on other long-term monetary assets/liabilities	1,397	5	2,022	(562)
	$ 4,993	$ (2,649)	$ 1,700	$ 70

At September 29, 2019, the Company had $216 million of foreign exchange forward contracts to buy currencies in which the Company operates (U.S. dollars, Canadian dollars, or GBP). The related liability of $1.5 million (December 30, 2018: $1.5 million) is recorded on the unaudited interim condensed 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 (loss) and total comprehensive income (loss).

Earnings before interest and income taxes ("EBIT")

In 2019 Q3, the Company recorded EBIT of $20.3 million compared to EBIT of $55.9 million in 2018 Q3. In 2019 Q3 YTD, the Company recorded EBIT of $101.5 million compared to EBIT of $176.9 million in 2018 Q3 YTD. EBIT has been impacted by non-cash and non-recurring items as follows:

(Unaudited, U.S. dollars in thousands)	2019 Q3	2018 Q3	2019 Q3 YTD	2018 Q3 YTD
Non-cash and non-recurring charges:				
Costs associated with assessing strategic and corporate initiatives	$ 342	$ —	$ 13,685	$ 137
Unrealized foreign exchange (gain) loss	4,994	(2,649)	1,700	70
Equity settled stock-based compensation	152	479	1,129	1,375
Loss (gain) on disposition of property, plant and equipment	(93)	244	(98)	275
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue	20,158	—	28,848	266
Fair value adjustment of total return swap	1,432	(541)	676	918
Past service costs	—	—	—	6,482
Recovery on currency transactions	—	—	(4,287)	—
Prior year sales tax provision	—	—	3,794	—
Amortization	32,055	16,106	73,435	49,779
Total non-cash and non-recurring charges:	$ 59,040	$ 13,639	$ 118,882	$ 59,302

Interest and finance costs

The interest and finance costs for 2019 Q3 of $19.0 million increased by $12.1 million when compared 2018 Q3. The increase is primarily due increased interest on long-term debt of $6.3 million. Increased interest is the result of higher average Revolver draws for the acquisition of ADL and to finance higher non-cash working capital, which is expected to be recovered as WIP levels are reduced. A $4.4 million loss on the interest rate swap in 2019 Q3, interest related to leases capitalized under IFRS 16 and higher other banking charges contributed to the remaining increase.

The interest and finance costs for 2019 Q3 YTD of $62.1 million increased by $45.0 million when compared to 2018 Q3 YTD. The increase is primarily due to a $26.5 million loss on the interest rate swap in 2019 Q3 YTD compared to a gain of $1.4 million in 2018 Q3 YTD. Higher average Revolver draws contributed to the increase in long-term debt of $11.1 million and interest related to leases capitalized under IFRS 16 and higher other banking charges contributed to the remaining increase.

The losses on the interest rate swap relates to risk management activities management has undertaken to reduce the uncertainty related to its cost of borrowing. The interest rate swap entered into fixes the interest rate which the Company will pay on $600 million of its long-term debt at 2.27% plus an applicable margin. The Company's accounting policy is to not designate these types of instruments as accounting hedges. As a result, interest rate increases will result in mark-to-market gains, while interest rate decreases will result in mark-to-market losses.

Earnings before income taxes ("EBT")

EBT for 2019 Q3 of $1.3 million decreased by $47.6 million compared to EBT of $48.9 million in 2018 Q3. EBT for 2019 Q3 YTD of $39.5 million decreased by $120.4 million compared to EBT of $159.9 million in 2018 Q3 YTD. 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 2019 Q3 was $2.4 million compared to $11.9 million in 2018 Q3. The ETR for 2019 Q3 was 185.4% and the ETR for 2018 Q3 was 24.3%. The reduction in the overall income tax expense is primarily due to lower earnings before taxes. The high ETR is predominantly due to the impact of low earnings before tax, resulting from the unwind of fair value adjustments related to acquired assets as discussed in the gross margin section, and the impact of U.S. tax measures enacted on December 22, 2017.

The income tax expense for 2019 Q3 YTD was $15.9 million compared to $42.8 million in 2018 Q3 YTD. The ETR for 2019 Q3 YTD was 40.3% and the ETR for 2018 Q3 YTD was 26.8%. The reduction in the overall income tax expense is primarily due to lower earnings before taxes. The increase in the ETR is predominantly due to non-deductible transaction costs pertaining to the acquisition of ADL, and the impact of U.S. tax measures enacted on December 22, 2017.

Net earnings (loss)

The Company reported net loss of $1.1 million in 2019 Q3, a decrease of 102.9% compared to net earnings of $37.0 million in 2018 Q3. The Company reported net earnings of $23.6 million in 2019 Q3 YTD, a decrease of 79.9% compared to net earnings of $117.1 million in 2018 Q3 YTD. The decrease in net earnings is a result of ADL acquisition costs, adjustments for purchase accounting, and fair value adjustments on FX and interest contracts.

Net earnings (loss) (Unaudited U.S. dollars in millions)	**2019 Q3**	**2019 Q3 (excluding IFRS 16)**	**2018 Q3**	**2019 Q3 YTD**	**2019 Q3 YTD (excluding IFRS 16)**	**2018 Q3 YTD**
Earnings from operations	$ 25.2	$ 23.8	$ 53.5	$ 103.1	$ 101.0	$ 177.3
Non-cash gain (loss)	(4.9)	(4.9)	2.3	(1.6)	(1.6)	(0.4)
Interest expense	(19.0)	(17.5)	(6.9)	(62.1)	(57.7)	(17.0)
Income tax expense	(2.4)	(2.4)	(11.9)	(15.9)	(15.5)	(42.8)
Net earnings (loss)	$ (1.1)	$ (1.0)	$ 37.0	$ 23.5	$ 26.2	$ 117.1
Net earnings (loss) per Share (basic)	$ (0.02)	$ (0.02)	$ 0.59	$ 0.38	$ 0.43	$ 1.87
Net earnings (loss) per Share (fully diluted)	$ (0.02)	$ (0.02)	$ 0.59	$ 0.38	$ 0.42	$ 1.86

The Company's net earnings (loss) per Share in 2019 Q3 and 2019 Q3 YTD, excluding the impact of IFRS 16, of ($0.02) and $0.43, respectively decreased from net earnings per Share of $0.59 and $1.87 generated in 2018 Q3 and 2018 Q3 YTD. Net earnings were lower in 2019 Q3 for the reasons discussed throughout the Results of Operation section in this MD&A, which decreased earnings per Share in 2019 Q3. Partially offsetting the impact of these decreases in net earnings per Share were lower weighted average common Shares as disclosed in note 8 to the Financial Statements.

Cash Flow

The cash flows of the Company are summarized as follows:

(Unaudited Quarterly Results, U.S. dollars in thousands)	**2019 Q3**	**2018 Q3**	**2019 Q3 YTD**	**2018 Q3 YTD**
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	$ 57,398	$ 64,770	$ 176,721	$ 217,819
Interest paid	(13,608)	(5,582)	(32,229)	(16,735)
Income taxes paid	(13,548)	(14,780)	(32,939)	(60,928)
Net cash earnings	30,242	44,408	111,553	140,156
Cash flow used in changes in working capital	(57,800)	(2,183)	(176,706)	(32,352)
Cash flow generated from operating activities	(27,558)	42,225	(65,153)	107,804
Cash flow from (used in) financing activities	48,471	(36,321)	443,186	(46,075)
Cash flow used in investing activities	(13,213)	(20,046)	(357,821)	(50,640)

Cash flows from operating activities

The 2019 Q3 net operating cash outflow of $27.6 million is comprised of $57.8 million of cash outflows related to changes in working capital, partially offset by $30.2 million of net cash earnings. Management anticipates the working capital to reverse during the year or early in 2020 as it primarily relates to deferred deliveries and temporary production issues. The 2018 Q3 net operating cash inflow of $42.2 million is comprised of $44.4 million of net cash earnings partially offset by cash used for working capital of $2.2 million.

The 2019 Q3 YTD net operating cash outflow of $65.2 million is comprised of $176.7 million outflows related to changes in working capital partially offset by net cash earnings of $111.6 million. Management anticipates that working capital will decline during the year as it primarily relates to deferred deliveries and temporary production issues. The 2018 Q3 YTD net operating cash inflow of $107.8 million is comprised of $140.2 million of net cash earnings and a decrease in cash used for working capital of $32.4 million.

Cash flow from financing activities

The cash inflows of $48.5 million and $443.2 million during 2019 Q3 and 2019 Q3 YTD, respectively, related to proceeds from debt related for the acquisition of ADL, Shares issued for the acquisition of ADL, financing higher non-cash working capital balances and dividends paid to shareholders.

Cash flow from investing activities

(Unaudited Quarterly Results, U.S. dollars in thousands)	2019 Q3	2018 Q3	2019 Q3 YTD	2018 Q3 YTD
Acquisition of intangible assets	$ (10)	$ —	$ (27)	$ (18)
Proceeds from disposition of property, plant and equipment	146	160	174	225
Net cash used in acquisitions	—	—	(327,361)	—
Acquisition of property, plant and equipment	(13,349)	(20,206)	(30,607)	(50,847)
Cash from investing activities	$ (13,213)	$ (20,046)	$ (357,821)	$ (50,640)

2019 Q3 investing activities have decreased outflows compared to 2018 Q3 primarily due to lower acquisition of property, plant and equipment. 2019 Q3 YTD investing activities have greater outflows than 2018 Q3 YTD primarily due to the acquisition of ADL, partially offset by lower acquisition of property, plant and equipment.

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 under the Company's fifth amended and restated 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 current 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 liability of $19.9 million at 2019 Q3 (2018 Q4: $6.6 million asset) was recorded on the unaudited interim condensed consolidated statements of financial position as a derivative financial instruments liability and the change in fair value has been recorded as finance costs for the reported period. The unrealized losses recorded on the instrument are a result of interest rate reductions subsequent to entering into the transaction.

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.

The purchase of new coaches, transit buses or cutaways by private fleet operators is paid from the operators' own capital budgets and funded by its 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 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 unaudited interim condensed consolidated statements of net earnings (loss) and total comprehensive income (loss).

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

	September 29, 2019	December 30, 2018
Current, including holdbacks	$ 415,981	$ 358,729
Past due amounts but not impaired		
1 – 60 days	21,072	24,153
Greater than 60 days	8,272	4,830
Less: allowance for doubtful accounts	(209)	(226)
Total accounts receivables, net	$ 445,116	$ 387,486

The counterparties to the Company's derivatives are chartered Canadian banks and international 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.

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 September 29, 2019:

U.S. dollars in thousands	Total	2019	2020	2021	2022	2023	Post 2023
Leases	253,517	8,402	25,663	23,600	21,577	18,826	155,449
Accrued benefit liability	6,477	6,172	305	—	—	—	—
	$ 259,994	$ 14,574	$ 25,968	$ 23,600	$ 21,577	$ 18,826	$ 155,449

As at September 29, 2019, outstanding surety bonds guaranteed by the Company amounted to $477.0 million, representing an increase compared to $412.4 million at September 30, 2018. The estimated maturity dates of the surety bonds outstanding at September 29, 2019 range from October 2019 to September 2027. 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 September 29, 2019, letters of credit amounting to $13.7 million (December 30, 2018: $13.8 million) remained outstanding as security for the contractual obligations of the Company under the Credit Facility.

The Company has an additional bi-lateral credit facility of $63.6 million. As at September 29, 2019, letters of credit totaling $30.2 million were outstanding under the bi-lateral credit facility. Additionally, there are $14.5 million of letters of credit outstanding outside of the Credit Facility and the bi-lateral credit facility.

The Company does not have any off-balance sheet arrangement or any material capital asset commitments at September 29, 2019.

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	(475,443)	—	(14,913)	—	March 26, 2021	C$10.20	C$1.55
December 30, 2013	612,050	(550,231)	(9,631)	(52,188)	—	December 30, 2021	C$10.57	C$1.44
December 28, 2014	499,984	(204,243)	(11,368)	(284,373)	—	December 28, 2022	C$13.45	C$1.83
December 28, 2015	221,888	(19,532)	—	(146,884)	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)	(1,615)	(73,299)	74,895	January 3, 2025	C$40.84	C$7.74
January 2, 2018	152,833	—	(1,882)	(37,754)	113,247	January 2, 2026	C$54.00	C$9.53
January 2, 2019	284,674	—	(3,431)	—	281,243	January 2, 2027	C$33.43	C$5.01
July 15, 2019	2,835	—	—	—	2,835	July 15, 2027	C$35.98	C$4.90
	2,418,210	(1,251,059)	(27,927)	(611,040)	528,234		C$29.62	

The following reconciles the stock options outstanding:

	Fiscal 2019		Fiscal 2018	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance at beginning of period	946,306	C$27.02	979,333	C$19.94
Granted during the period	287,559	C$33.46	152,833	C$54.00
Expired during the period	(6,928)	C$40.75	—	—
Exercised during the period	(87,663)	C$13.28	(185,860)	C$12.03
Balance at end of period	1,139,274	C$29.62	946,306	C$26.75

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 $145 thousand of director restricted Share units ("Director RSUs") in 2019 Q3. Of these Director RSUs issued, approximately $94 thousand were exercised and exchanged for 3,324 Shares.

Critical accounting estimates and judgments

The Company's critical accounting estimates and judgments can be found within note 2 to the 2018 Annual Financial Statements.

New and amended standards adopted by the Company

IFRS 16 - Leases ("IFRS 16")

Effective December 31, 2018, the Company adopted IFRS 16, which specifies how to recognize, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases. The adoption of this standard will result in the recognition of amounts through the consolidated statements of net earnings (loss) through depreciation and interest charges on the right-of-use asset and lease liability, respectively. Under the former accounting policy, IAS 17, expenses related to leases were recorded through operating expenses. On transition, the Company has elected to use the following practical expedients:

- To utilize the modified retrospective approach to adopting the standard, accordingly comparative information for 2018 has not been restated.
- To utilize the definition of a lease under IAS 17, leases to identify contracts that are, or contain, leases.
- To exclude the recognition of the right-of-use asset and lease liability for leases with a term of twelve months or less.

Lease assets formerly capitalized as fixed assets are transferred at their net book value to the right-of-use asset line item within consolidated statement of financial position. No adjustments to the carrying value of these leased assets was made as a part of transition to IFRS 16.

The transition adjustment is shown in below.

	Assets			Liabilities		
	Right-of-use asset	Property, plant and equipment	Other long-term asset	Obligations under leases	Current portion of obligation under leases	Accounts Payable and accrued liabilities
Opening balances at December 31, 2018	$ —	$ 247,943	$ 1,052	$ 19,087	$ 7,936	$ 366,517
Transition to IFRS 16	131,595	(27,319)	4,225	104,670	5,553	(1,722)
Adjusted December 31, 2018	$ 131,595	$ 220,624	$ 5,277	$ 123,757	$ 13,489	$ 364,795

The following table reconciles the Company's operating lease obligations at December 30, 2018, as previously disclosed in the Company's audited consolidated financial statements.

Operating lease commitments at December 30, 2018	$ 70,690
Extension options reasonably certain to be exercised	134,422
Discounted using the incremental borrowing rate at December 31, 2018	(94,316)
Recognition exemptions for short-term and low-value leases	(573)
Lease obligations recognized at December 31, 2018	$ 110,223

The weighted average incremental borrowing rate at December 31, 2018 was 5.3%.

The Company's accounting policy under IFRS 16 is as follows:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated based on the lease term of the asset using the straight-line method.

The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. Lease terms are as follows:

Land and Building	4 - 35 years
Machinery and Equipment	15 months - 5 years
Automobiles	13 months - 3 years
Office Equipment	14 months - 5 years

The lease liability is initially measured at the present value of the lease payments that are not paid at commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company uses its incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

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 2019 Q3 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

ICFR, no matter how well designed, have inherent limitations. Therefore, ICFR can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

Disclosure Controls

Management is responsible for establishing and maintaining disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner and that information required to be disclosed is reported within time periods prescribed by applicable securities legislation. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. The Company's CEO and CFO have concluded that disclosure controls and procedures as at December 30, 2018 were effective.

Limitation of Disclosure Controls and Procedures & Internal Control over Financial Reporting

As permitted by securities legislation, for the period ended September 29, 2019, the Company's management has limited the scope of its design of the Company's disclosure controls and procedures and the Company's ICFR to exclude controls, policies and procedures of ADL, which the Company acquired on May 28, 2019.

From the date of acquisition to September 29, 2019 and as at September 29, 2019, certain financial results and financial position of ADL are:

(Unaudited, U.S. dollars in thousands)	**2019 Q3**
Revenue	$ 158,932
Net earnings	39,334
Current assets	303,086
Non-current assets	390,152
Current liabilities	(456,932)
Non-current liabilities	(63,863)

Appendix A - Acquisition of ADL

On the Acquisition Date, NFI completed the acquisition of ADL through the purchase of all the issued and outstanding shares of ADL for total consideration of £320 million (approximately $405 million) subject to certain purchase price adjustments (including repayment of outstanding indebtedness) resulting in a purchase price of £295 million (approximately $374 million).

In conjunction with the acquisition, NFI borrowed approximately $118 million under its existing senior credit facility, entered into and drew the full amount under a new $300 million credit facility, and issued from treasury 1.47 million Shares, in lieu of cash, to ADL's primary shareholders. The funds were used to fund the acquisition, repay ADL's credit facilities, and provide operating capital to ADL.

The acquisition is considered to be a business combination under IFRS 3, Business Combinations ("IFRS 3") with NFI as the acquirer and ADL as the acquired entity.

For the purposes of preparing the unaudited financial information of ADL presented below, adjustments have been made to the historical financial statements of ADL to convert its financial statements prepared in accordance with UK GAAP to IFRS and to conform its accounting policies and presentation to those used by the Company. The details of these adjustments are as presented in the following tables.

(Unaudited, U.S. dollars in thousands unless noted)	UK GAAP	IFRS Adjustments	IFRS (GBP)	US Dollar £1 = US $1.2663	Fair Value Adjustments	May 28, 2019 Opening Balance Sheet
Cash and contingent consideration			267,578	$ 338,834		338,834
NFI shares issued			27,552	34,888		34,888
Purchase price			295,130	373,723		373,723
Cash acquired			36,614	46,364		46,364
Net purchase price			258,516	327,359		327,359
Net assets acquired						
Inventory	117,180	34,807	151,987	192,461	29,367	221,828
Accounts receivable	58,413	3,022	61,435	77,795		77,795
Prepaid expenses	8,243	641	8,884	11,250		11,250
Derivative financial instruments	3,972	(4,248)	(276)	(349)		(349)
Property, plant and equipment	18,256	3,563	21,819	27,629	7,875	35,504
Right-of-use assets	—	13,581	13,581	17,198		17,198
Accounts payable and accrued liabilities	(151,309)	11,805	(139,504)	(176,654)		(176,654)
Income taxes payable	(1,286)		(1,286)	(1,628)		(1,628)
Deferred revenues	6,189	(61,634)	(55,445)	(70,210)		(70,210)
Lease liability	(177)	(13,941)	(14,118)	(17,877)		(17,877)
Long-term debt	(45,000)	—	(45,000)	(56,984)		(56,984)
Provisions	(5,871)	—	(5,871)	(7,434)		(7,434)
Deferred tax liabilities	(1,211)	1,600	389	493	(44,359)	(43,866)
Net tangible assets acquired	7,399	(10,804)	(3,405)	(4,310)	(7,117)	(11,427)
Trade names					46,347	46,347
Patent and licenses					20,387	20,387
Customer relationships					135,367	135,367
Backlog of sales orders					16,842	16,842
Identifiable intangible assets acquired					218,943	218,943
Goodwill acquired					119,843	119,843

Alexander Dennis Limited

Unaudited Consolidated Statement of Earnings

Reconciliation of UK GAAP financial statements to IFRS consistent with NFI Group Inc. accounting policies

As at December 30, 2018

	December 30, 2018			December 30, 2018	
	UK GAAP (000s in £)	**IFRS Adjustments**	**Note**	**IFRS** (000s in £)	**IFRS** (000s in $)
Turnover	£ 630,797	£ (36,140)	(d)(e)	594,657	792,116
Cost of Sales	536,963	(24,299)	(d)(e)	512,664	682,897
Gross Profit	93,834			81,993	109,219
Distribution Costs	21,461			21,461	28,587
Administrative Expenses	41,591	(4,184)	(a)(b)(c)	37,407	49,828
Operating Profit	30,782			23,125	30,804
Interest income	(4,611)	(1,466)	(f)	(6,077)	(8,095)
Interest expense	2,675			2,675	3,563
Earnings before income tax expense	32,718			26,527	35,336
Income tax expense					
Current income taxes	3,082			3,082	4,105
Deferred income taxes	985	(1,459)		(474)	(631)
Tax on profit	4,067	(1,459)		2,608	3,474
Net earnings for the period	£ 28,651			£ 23,919	£ 31,862
Other comprehensive income					
Foreign exchange differences on translation of foreign operations	1,240			1,240	1,652
Cash flow hedging	1,528	(1,528)	(f)	—	—
Taxation on hedging instruments	(62)	62	(f)	—	—
Other comprehensive income for the period	2,706			1,240	1,652
Total comprehensive income for the period	31,357			25,159	33,514

Notes:

(a) Reduction new product development costs previously capitalized and reclassification of costs related to demo buses from intangible assets to tangible assets.
(b) Adjustment to reflect that goodwill is not amortizing under IFRS.
(c) Recognition of right-of-use assets, lease liabilities and related interest and depreciation related to IFRS 16.
(d) Change in revenue recognition timing from completion of vehicle production to customer delivery or pickup.
(e) Change in revenue recognition from revenue recognized over time to revenue recognized at a point in time.
(f) Change in accounting for derivatives in accordance with NFI policy. Financial instruments are no longer designated as accounting hedges.

Unaudited Interim Condensed Consolidated Financial Statements of

NFI GROUP INC.

September 29, 2019

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NFI GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET EARNINGS (LOSS) AND TOTAL COMPREHENSIVE INCOME (LOSS)

For the 13-Weeks and 39-Weeks ended September 29, 2019 ("2019 Q3" and "2019 Q3 YTD", respectively) and 13-Weeks and 39-Weeks ended September 30, 2018 ("2018 Q3" and "2018 Q3 YTD", respectively)

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

	2019 Q3	2018 Q3	2019 Q3 YTD	2018 Q3 YTD
Revenue (note 12)	$ 725,347	$ 605,342	$ 1,975,695	$ 1,857,001
Cost of sales (note 4)	639,214	500,855	1,700,190	1,521,058
Gross profit	86,133	104,487	275,505	335,943
Sales, general and administration costs and other operating expenses	61,956	48,361	172,875	155,224
Foreign exchange (gain) loss	(1,023)	2,657	(476)	3,434
Earnings from operations	25,200	53,469	103,106	177,285
Gain (loss) on disposition of property, plant and equipment	93	(244)	98	(275)
Unrealized foreign exchange gain (loss) on non-current monetary items	(4,993)	2,649	(1,700)	(70)
Earnings before interest and finance costs and income tax	20,300	55,874	101,504	176,940
Interest and finance costs				
Interest on long-term debt	11,421	5,148	26,187	15,112
Accretion in carrying value of long-term debt (note 7)	261	404	635	1,198
Interest expense on lease liability (note 2)	1,914	—	5,270	—
Other interest and bank charges	1,019	768	3,458	2,161
Fair market value loss (gain) on interest rate swap	4,415	618	26,504	(1,436)
	19,030	6,938	62,054	17,035
Earnings before income tax expense	1,270	48,936	39,450	159,905
Income tax expense (note 6)	2,355	11,905	15,879	42,778
Net earnings (loss) for the period	$ (1,085)	$ 37,031	$ 23,571	$ 117,127
Other comprehensive income (loss)				
Actuarial income (loss) on defined benefit pension plan - this item will not be reclassified subsequently to profit or loss	$ 122	$ 2,291	$ (8,557)	$ 7,744
Unrealized foreign exchange gains (losses) on translation of foreign operations	(12,378)	—	(14,435)	—
Total comprehensive income (loss) for the year	$ (13,341)	$ 39,322	$ 579	$ 124,871
Net earnings (loss) per share (basic) (note 9)	$ (0.02)	$ 0.59	$ 0.38	$ 1.87
Net earnings (loss) per share (diluted) (note 9)	$ (0.02)	$ 0.59	$ 0.38	$ 1.86

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

NFI GROUP INC.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at September 29, 2019
(unaudited, in thousands of U.S. dollars)

	September 29, 2019	December 30, 2018
Assets		
Current		
Cash	$ 31,013	$ 10,820
Accounts receivable (note 3,11)	445,116	387,486
Income tax receivable	36,930	34,115
Inventories (note 4)	724,286	424,685
Prepaid expenses and deposits	20,563	10,434
	1,257,908	867,540
Property, plant and equipment (note 2)	267,753	247,943
Right-of-use asset (note 2)	153,454	—
Derivative financial instruments (note 11 b,c)	—	6,592
Goodwill and intangible assets	1,248,338	951,010
Other long-term assets (note 2,5)	18,722	1,052
	$ 2,946,175	$ 2,074,137
Liabilities		
Current		
Accounts payable and accrued liabilities (note 2)	$ 475,986	$ 366,517
Derivative financial instruments (note 11 b,c)	2,189	1,542
Current portion of long-term liabilities (note 15)	152,773	80,310
	630,948	448,369
Accrued benefit liability	13,897	5,265
Obligations under leases (note 2)	144,097	19,087
Deferred compensation obligation	3,230	4,979
Deferred revenue	11,333	10,443
Other long-term liabilities	—	1,008
Provisions (note 14)	65,441	64,946
Deferred tax liabilities	108,125	83,121
Derivative financial instruments (note 11 b,c)	19,913	—
Long-term debt (note 7)	1,177,505	639,432
	$ 2,174,489	$ 1,276,650
Commitments and contingencies (note 13)		
Shareholders' equity		
Share capital (note 8)	680,043	654,307
Stock option and restricted share unit reserve	6,513	5,796
Accumulated other comprehensive loss	(29,698)	(6,706)
Treasury shares (note 8)	—	(8,835)
Retained earnings	114,828	152,925
	$ 771,686	$ 797,487
	$ 2,946,175	$ 2,074,137

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

NFI GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the period ended September 29, 2019

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

	Share Capital	Stock Option and Restricted Share Unit Reserve	Accumulated Other Comprehensive Loss	Treasury shares	Retained Earnings (Deficit)	Total Shareholders' Equity
Balance, December 31, 2017	**$ 665,602**	**$ 4,724**	**$ (9,876)**	**$ —**	**$ 107,379**	**$ 767,829**
Net earnings	—	—	—	—	117,127	117,127
Other comprehensive income	—	—	7,744	—	—	7,744
Dividends declared on common shares	—	—	—	—	(51,862)	(51,862)
Repurchase and cancellation of common shares	(8,084)	—	—	—	(21,504)	(29,588)
Change in share purchase commitment	—	—	—	(358)	(965)	(1,323)
Share-based compensation, net of deferred income taxes	—	1,788	—	—	—	1,788
Shares issued	2,584	(895)	—	—	—	1,689
Balance, September 30, 2018	**660,102**	**5,617**	**(2,132)**	**(358)**	**150,175**	**813,404**
Net earnings	—	—	—	—	42,815	42,815
Other comprehensive income	—	—	(4,574)	—	—	(4,574)
Dividends declared on common shares	—	—	—	—	(16,784)	(16,784)
Repurchase and cancellation of common shares	(5,889)	—	—	—	(10,730)	(16,619)
Change in share purchase commitment	—	—	—	(8,477)	(12,551)	(21,028)
Share-based compensation, net of deferred income taxes	—	273	—	—	—	273
Shares issued	94	(94)	—	—	—	—
Balance, December 30, 2018	**$ 654,307**	**$ 5,796**	**$ (6,706)**	**$ (8,835)**	**$ 152,925**	**$ 797,487**
Net earnings	**—**	**—**	**—**	**—**	**23,571**	**23,571**
Other comprehensive income	**—**	**—**	**(22,992)**	**—**	**—**	**(22,992)**
Dividends declared on common shares	**—**	**—**	**—**	**—**	**(59,639)**	**(59,639)**
Repurchase and cancellation of common shares	**(10,451)**	**—**	**—**	**8,835**	**(2,029)**	**(3,645)**
Share-based compensation, net of deferred income taxes	**—**	**1,111**	**—**	**—**	**—**	**1,111**
Shares issued	**36,187**	**(394)**	**—**	**—**	**—**	**35,793**
Balance, September 29, 2019	**$ 680,043**	**$ 6,513**	**$ (29,698)**	**$ —**	**$ 114,828**	**$ 771,686**

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

NFI GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the 13-Weeks and 39-Weeks Ended September 29, 2019 ("2019 Q3" and "2019 Q3 YTD", respectively) and the 13-Weeks and 39-Weeks Ended September 30, 2018 ("2018 Q3" and "2018 Q3 YTD", respectively)

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

	2019 Q3	2018 Q3	2019 Q3 YTD	2018 Q3 YTD
Operating activities				
Net earnings (loss) for the period	$ (1,085)	$ 37,031	$ 23,571	$ 117,127
Income tax expense	2,355	11,905	15,879	42,778
Depreciation of plant and equipment	16,700	8,028	42,064	22,954
Amortization of intangible assets	15,355	8,078	31,371	26,825
Share-based compensation	152	479	1,129	1,375
Interest and finance costs recognized in profit or loss	19,030	6,938	62,054	17,035
Fair value adjustment for total return swap	1,432	(541)	676	918
Unrealized foreign exchange loss (gain) on non-current monetary items	4,993	(2,649)	1,700	70
Foreign exchange gain (loss) on cash held in foreign currency	37	(210)	19	(483)
Loss (gain) on disposition of property, plant and equipment	(93)	244	(98)	275
Defined benefit expense	1,544	1,378	4,527	10,578
Defined benefit funding	(3,022)	(5,911)	(6,171)	(21,633)
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	57,398	64,770	176,721	217,819
Changes in non-cash working capital items (note 10)	(57,800)	(2,183)	(176,706)	(32,352)
Cash generated (used) in operating activities before interest and income taxes paid	(402)	62,587	15	185,467
Interest paid	(13,608)	(5,582)	(32,229)	(16,735)
Income taxes paid	(13,548)	(14,780)	(32,939)	(60,928)
Net cash generated (used) in operating activities	(27,558)	42,225	(65,153)	107,804
Financing activities				
Debt issue costs	(506)	—	(1,612)	—
Repayment of obligations under leases	(4,613)	(1,523)	(11,056)	(3,578)
Proceeds from long-term debt	73,350	4,400	482,066	36,500
Share issuance	490	129	35,861	1,689
Repayment of other long-term liabilities	—	—	—	(1,000)
Repurchase of shares	—	(21,410)	(5,682)	(29,588)
Dividends paid	(20,250)	(17,917)	(56,391)	(50,098)
Net cash generated (used) in financing activities	48,471	(36,321)	443,186	(46,075)
Investing activities				
Acquisition of intangible assets	(10)	—	(27)	(18)
Proceeds from disposition of property, plant and equipment	146	160	174	225
Net cash used in acquisitions	—	—	(327,361)	—
Acquisition of property, plant and equipment	(13,349)	(20,206)	(30,607)	(50,847)
Net cash used in investing activities	(13,213)	(20,046)	(357,821)	(50,640)
Effect of foreign exchange rate on cash	(37)	210	(19)	483
Increase (decrease) in cash	7,663	(13,932)	20,193	11,572
(Bank indebtedness) cash — beginning of period	23,350	15,566	10,820	(9,938)
Cash — end of period	$ 31,013	$ 1,634	$ 31,013	$ 1,634

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

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 a leading independent global bus manufacturer providing a comprehensive suite of mass transportation solutions under brands: New Flyer® (heavy-duty transit buses), Alexander Dennis Limited (single and double-deck buses), Plaxton (motor coaches), MCI® (motor coaches), ARBOC® (low-floor cutaway and medium-duty buses) and NFI Parts™ (aftermarket parts sales). The Company's common shares (the "Shares") are listed on the Toronto Stock Exchange ("TSX") under the symbol "NFI".

These unaudited interim condensed consolidated financial statements (the "Statements") were approved by the Company's board of directors (the "Board") on November 12, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in the preparation of these Statements are the same as those applied by the Company in its audited consolidated financial statements as at and for the 52-week period ended December 30, 2018 ("Fiscal 2018"), unless otherwise stated. These Statements should be read in conjunction with the Company's audited consolidated financial statements for Fiscal 2018. These policies have been consistently applied to all periods presented, unless otherwise stated.

2.1 Statement of Compliance

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

2.2 Basis of Presentation

The Statements have been 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, revenues and expenses. Actual results may differ from these estimates.

In preparing these Statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied by the Company in its audited consolidated financial statements as at December 30, 2018, and for Fiscal 2018.

2.3 Principles of consolidation

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

2.4 New and amended standards adopted by the Company

IFRS 16 - Leases ("IFRS 16")

Effective December 31, 2018, the Company adopted IFRS 16, which specifies how to recognize, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases. The adoption of this standard resulted in the recognition of amounts through the consolidated statements of net earnings (loss) through depreciation and interest charges on the right-of-use asset and lease liability, respectively. Under the former accounting policy, IAS 17, leases ("IAS 17"), expenses related to leases were recorded through operating expenses. On transition, the Company has elected to use the following practical expedients:

- To utilize the modified retrospective approach to adopting the standard, accordingly comparative information for 2018 has not been restated.
- To utilize the definition of a lease under IAS 17, to identify contracts that are, or contain, leases.
- To exclude the recognition of the right-of-use asset and lease liability for leases with a term of twelve months or less.

Lease assets formerly capitalized as fixed assets are transferred at their net book value to the right-of-use asset line item within consolidated statement of financial position. No adjustments to the carrying value of these leased assets was made as a part of transition to IFRS 16.

The transition adjustment is shown in below.

	Assets			Liabilities		
	Right-of-use asset	Property, plant and equipment	Other long-term asset	Obligations under leases	Current portion of obligation under leases	Accounts Payable and accrued liabilities
Opening balances at December 31, 2018	$ —	$ 247,943	$ 1,052	$ 19,087	$ 7,936	$ 366,517
Transition to IFRS 16	131,595	(27,319)	4,225	104,670	5,553	(1,722)
Adjusted December 31, 2018	$ 131,595	$ 220,624	$ 5,277	$ 123,757	$ 13,489	$ 364,795

The following table reconciles the Company's operating lease obligations at December 30, 2018, as previously disclosed in the Company's audited consolidated financial statements.

Operating lease commitments at December 30, 2018	$ 70,690
Extension options reasonably certain to be exercised	134,422
Discounted using the incremental borrowing rate at December 31, 2018	(94,316)
Recognition exemptions for short-term and low-value leases	(573)
Lease obligations recognized at December 31, 2018	$ 110,223

The weighted average incremental borrowing rate at December 31, 2018 was 5.3%.

The Company's accounting policy under IFRS 16 is as follows:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated based on the lease term of the asset using the straight-line method. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. Lease terms are as follows:

Land and Building	4 - 35 years
Machinery and Equipment	15 months - 5 years
Automobiles	13 months - 3 years
Office Equipment	14 months - 5 years

The lease liability is initially measured at the present value of the lease payments that are not paid at commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company uses its incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

2.5 Fiscal Periods

The Company's 2019 fiscal period is divided into quarters as follows:

	Period from December 31, 2018 to December 29, 2019 ("Fiscal 2019")		Period from January 1, 2018 to December 30, 2018 ("Fiscal 2018")	
	Period End Date	# of Calendar Weeks	Period End Date	# of Calendar Weeks
Quarter 1	March 31, 2019	13	April 1, 2018	13
Quarter 2	June 30, 2019	13	July 1, 2018	13
Quarter 3	September 29, 2019	13	September 30, 2018	13
Quarter 4	December 29, 2019	13	December 30, 2018	13
Fiscal year	December 29, 2019	52	December 30, 2018	52

2.6 Translation of unrealized foreign exchange gains on translation of foreign operations

The Company operates with multiple functional currencies. The Company's consolidated financial statements are presented in U.S. dollars as this presentation is most meaningful to financial statement users. For those subsidiaries with different functional currencies, exchange rate differences arising from the translation of items that form part of the net investment in the foreign operation are recorded in unrealized foreign exchange gains (losses) on translation of foreign operations in other comprehensive income.

2.7 Acquisition of ADL

On May 28, 2019 (the "Acquisition Date"), the Company through its wholly owned subsidiary NFI International Limited, acquired 100% of the voting equity interest in Alexander Dennis Limited ("ADL") for £295.1 million ($373.7 million). ADL is an independent bus and coach manufacturer and a global producer of double deck buses. The purchase price was funded through NFI's existing credit facility, a new US $300 million credit facility and the issuance from treasury of 1.47 million Shares, in lieu of cash, to ADL's primary shareholders. The Company has included within its consideration £3.4 million ($4.3 million) placed in escrow and £1.5 million ($1.9 million), of contingent consideration which will be released or paid, respectively to the seller once certain post-closing conditions are met. The acquisition has been accounted for using the acquisition method. The fair values of the identifiable assets and liabilities acquired have been based on management's best estimates and valuation techniques as at the Acquisition Date. The Company adjusted the preliminary purchase price allocation as set out below to account for information that was not previously available. This included the addition of specific intangible assets for trade names, patent and licenses, customer relationships, and backlog of sales orders. It also included an adjustment to net tangible assets acquired. The adjustments recorded resulted in an adjustment to goodwill from the amount originally reported.

	Original British Pound Sterling ("GBP")	Adjustments (GBP)	Revised (GBP)	**Opening Balance Sheet** U.S. Dollar £1 = US$1.2663
Cash and contingent consideration	267,578	—	267,578	338,834
NFI shares issued	27,552	—	27,552	34,888
Purchase price	295,130	—	295,130	373,722
Cash acquired	36,614	—	36,614	46,364
Net purchase price	258,516	—	258,516	327,359
Net assets acquired				
Inventories	177,700	(2,522)	175,178	221,828
Accounts receivable	64,441	(3,006)	61,435	77,795
Prepaid expenses and deposits	8,884	—	8,884	11,250
Derivative financial instruments	(276)	—	(276)	(349)
Property, plant and equipment	28,038	—	28,038	35,504
Right-of-use assets	13,581	—	13,581	17,198
Accounts payable and accrued liabilities	(139,264)	(240)	(139,504)	(176,654)
Income tax payable	(1,286)	—	(1,286)	(1,628)
Deferred revenue	(52,189)	(3,256)	(55,445)	(70,210)
Obligations under leases	(14,118)	—	(14,118)	(17,877)
Long-term debt	(45,000)	—	(45,000)	(56,984)
Provisions	(5,871)	—	(5,871)	(7,434)
Deferred tax liabilities	(6,056)	(28,585)	(34,641)	(43,866)
Net tangible assets acquired	28,584	(37,609)	(9,025)	(11,427)
Trade Names	—	36,600	36,600	46,347
Patent and Licenses	—	16,100	16,100	20,387
Customer relationships	—	106,900	106,900	135,367
Backlog of sales orders	—	13,300	13,300	16,842
Identifiable intangible assets acquired	—	172,900	172,900	218,943
Goodwill acquired				119,843

The goodwill acquired is largely attributable to NFI's opportunity to grow its geographical footprint, diversify its product offering and take leading positions in new markets. This goodwill is not expected to be deductible for tax purposes. As of September 29, 2019, the analysis of identified intangible assets and fair values is incomplete. Management continues to assess and value the purchase price allocation and as such remains subject to adjustments that could arise as a result of new information that would impact the determination of fair value of the assets acquired and liabilities assumed. There is continued analysis to be undertaken which will complete the validation of the valuation assumptions.

During the 123 days between the Acquisition Date and September 29, 2019, ADL produced revenues of approximately $208.7 million and net loss of $53.6 million, which have been recorded in the unaudited interim condensed consolidated statements of net earnings (loss) and total comprehensive income (loss) for 2019 Q3. If ADL had been acquired on December 31, 2018 the incremental consolidated pro-forma revenue and income for the 39-week period ending September 29, 2019 would have been as follows:

	Results as stated	Incremental	Pro-forma results
Revenue	$ 1,975,695	$ 437,294	$ 2,412,989
Net earnings	23,571	(30,710)	(7,139)

3. ACCOUNTS RECEIVABLE

	September 29, 2019	December 30, 2018
Trade, net of allowance for doubtful accounts	$ 417,961	$ 358,441
Other	27,155	29,045
	$ 445,116	$ 387,486

4. INVENTORIES

	September 29, 2019	December 30, 2018
Raw materials	$ 296,062	$ 213,117
Work in process	295,735	150,654
Finished goods	132,489	60,914
	$ 724,286	$ 424,685

	2019 Q3	2018 Q3	2019 Q3 YTD	2018 Q3 YTD
Cost of inventories recognized as expense and included in cost of sales	$ 655,236	$ 491,247	$ 1,707,057	$ 1,481,515
Write-down of inventory to net realizable value in cost of sales	2,885	2,121	4,597	5,877
Reversals of a previous write-down in inventory	292	12	292	2,318

5. OTHER LONG-TERM ASSETS

	September 29, 2019	December 30, 2018
Long-term restricted deposit (note 13b)	$ 14,490	$ —
Long-term accounts receivable	4,232	1,052
	$ 18,722	$ 1,052

Long-term restricted deposit is collateral for certain of the Company's letters of credit.

6. INCOME TAX EXPENSE

The income tax expense for 2019 Q3 was $2.4 million compared to $11.9 million in 2018 Q3. The reduction in the overall income tax expense is primarily due to lower earnings before taxes. The effective tax rate ("ETR") for 2019 Q3 was 185.4% and the ETR for 2018 Q3 was 24.3%. The high ETR is predominantly due to the impact of low earnings before taxes and of U.S. tax measures enacted on December 22,2019.

The income tax expense for 2019 Q3 YTD was $15.9 million compared to $42.8 million in 2018 Q3 YTD. The reduction in the overall income tax expense is primarily due to lower earnings before taxes. The ETR for 2019 Q3 YTD was 40.3% and the ETR for 2018 Q3 YTD was 26.8%. The increase in the ETR is predominantly due to non-deductible transaction costs pertaining to the acquisition of ADL and the impact of U.S. tax measures enacted on December 22, 2017.

7. LONG-TERM DEBT

	Face Value	Unamortized Transaction Costs	Net Book Value September 29, 2019	Net Book Value December 30, 2018
Revolving Credit Facility, Unsecured (“Revolver”)	1,180,650	3,145	1,177,505	639,432

On October 25, 2018 NFI entered into a new five-year senior unsecured, revolving credit facility (the "Credit Facility") maturing in October 2023 and extinguished its fifth amended and restated credit agreement (the "Prior Credit Agreement").

In May 2019, NFI entered into a $300 million revolving credit facility (the "Acquisition Revolver") to fund the acquisition of ADL. The terms of the Acquisition Revolver were principally the same as those of the syndicated Credit Facility. On August 6, 2019 NFI entered into an agreement to roll the Acquisition Revolver into its existing Revolver. The Revolver was increased by $250M and the $300M Acquisition Revolver was extinguished. The term of the Revolver was extended to August 6, 2024.

The unsecured Credit Facility has a total borrowing limit of $1.250 billion, which includes a $150 million letter-of-credit facility and a $250 million accordion feature. $13.8 million of outstanding letters-of-credit were drawn against the Credit Facility at September 29, 2019. 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 August 6, 2024. 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.

8. SHARE CAPITAL

		September 29, 2019		December 30, 2018
Authorized - Unlimited				
Issued - 62,419,078 common shares (December 30, 2018: 61,832,625)	$	680,043	$	654,307

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 the previous Normal Course Issuer Bid ("Former 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 Former NCIB. Pursuant to the amended Former NCIB, the Company was 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 have completed its repurchases prior to such date. The Former NCIB expired on June 13, 2019.

On June 12, 2019 the Company announced that the TSX had accepted a notice filed by the Company of its intention to implement a new Normal Course Issuer Bid (the "NCIB") to replace the Former NCIB to repurchase its Shares through the facilities of the TSX and any alternative Canadian trading systems on which the Shares are traded. The Company is permitted to repurchase for cancellation up to 5,357,914 Shares, representing approximately 10% of the outstanding public float of Shares on June 4, 2019. The Company is permitted to repurchase Shares under the NCIB commencing on June 17, 2019 up to June 16, 2020, 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 2019 Q1 the Company repurchased 232,100 Shares under the Former NCIB at an average price of $31.82 Canadian ("C") per Share for a total repurchase of C$7.4 million. The Company canceled 986,075 Shares during 2019 Q1, including 232,100 Shares purchased in 2019 Q1 and 753,975 Shares that were purchased in 2018 Q4. There were no shares purchased or canceled under the Former NCIB or the NCIB during 2019 Q2 or 2019 Q3.

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 30, 2018	61,833	$	654,307
Stock options exercised	88		974
Restricted share units exercised	12		325
Issuance of Shares - ADL purchase	1,472		34,888
Repurchase and cancellation of Shares	(986)		(10,451)
Balance - September 29, 2019	62,419	$	680,043

9. EARNINGS (LOSS) PER SHARE

	2019 Q3	2018 Q3	2019 Q3 YTD	2018 Q3 YTD
Net earnings (loss) attributable to equity holders	$ (1,085)	$ 37,031	$ 23,571	$ 117,127
Weighted average number of Shares in issue	62,391,178	62,860,422	61,601,132	62,481,052
Add: net incremental Shares from assumed conversion of stock options and exercise of restricted share units	214,033	437,615	242,331	481,627
Weighted average number of Shares for diluted earnings per Share	62,605,211	63,298,037	61,843,463	62,962,679
Net earnings (loss) per Share (basic)	$ (0.0174)	$ 0.5891	$ 0.3826	$ 1.8746
Net earnings (loss) per Share (diluted)	$ (0.0173)	$ 0.5850	$ 0.3811	$ 1.8603

Basic earnings (loss) per Share is calculated by dividing the net earnings (loss) 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.

Diluted earnings (loss) 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.

10. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	2019 Q3	2018 Q3	2019 Q3 YTD	2018 Q3 YTD
Accounts receivable	$ (22,526)	$ (9,861)	$ 20,828	$ 1,125
Income tax receivable	(6,555)	(1,247)	(4,445)	(6,792)
Inventories	7,878	(7,948)	(91,938)	(54,758)
Prepaid expenses and deposits	1,254	3,294	1,121	4,161
Accounts payable and accrued liabilities	(25,138)	13,511	(63,429)	45,145
Income tax payable	—	—	—	(7,328)
Deferred revenue	(9,553)	(3,374)	(2,025)	(12,669)
Provisions	(5,621)	(1,105)	(11,172)	(4,174)
Long-term restricted deposit (note 5)	(798)	—	(14,490)	—
Other	3,259	4,547	(11,156)	2,938
	$ (57,800)	$ (2,183)	$ (176,706)	$ (32,352)

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Financial Instruments

The Company has made the following classifications:

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

(b) Fair value measurement of financial instruments

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

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

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

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

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

	September 29, 2019		
	Fair value level	Carrying amount	Fair value
Financial assets recorded at fair value			
Cash	Level 1	$ 31,013	$ 31,013
Long term restricted cash	Level 1	$ 14,490	$ 14,490
Financial liabilities recorded at fair value			
Total return swap contracts	Level 2	663	663
Foreign exchange forward contracts	Level 2	1,526	1,526
Derivative financial instrument liabilities - current		$ 2,189	$ 2,189
Interest rate swap	Level 2	$ 19,913	$ 19,913
Derivative financial instrument liabilities - long term		$ 19,913	$ 19,913

(c) Risk Management

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

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

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 amortizing 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 Company entered into a total return swap transaction to hedge the exposure associated with increases in its share value on a portion of the outstanding performance share units, restricted share units, and deferred share units. The total return swap has a re-investment feature which increases the number of Shares in the swap when dividends are paid by the Company. As at September 29, 2019 the Company held a position of 229,538 Shares at a weighted average price of C$32.47. The Company does not apply hedge accounting to these derivative instruments and as such, gains and losses arising from marking these derivatives to market are recognized in net earnings in the period in which they arise.

At September 29, 2019, the Company had $218 million of foreign exchange forward contracts to buy currencies in which the Company operates with U.S. dollars, Canadian dollars, or GBP. The related liability of $1.5 million (December 30, 2018: $1.5 million liability) is recorded on the unaudited interim condensed 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 (loss) and total comprehensive income (loss).

(d) Liquidity Management

The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At September 29, 2019, the Company had a cash balance of $31.0 million (December 30, 2018: $10.8 million), the $1.181 billion under the Revolver due in 2024 (December 30, 2018: $641.6 million Revolver) and $13.8 million of outstanding letters of credit (December 31, 2018: $13.8 million). In addition, there are $53.0 million of the letters of credit outside of the Credit Facility. The unsecured Credit Facility has a total borrowing limit of $1.250 billion, which includes a $150 million letter-of-credit facility and a $250 million accordion feature. The liquidity position as at September 29, 2019 is $86.6 million.

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.

The following table outlines the maturity analysis of the undiscounted cash flows of certain non-financial liabilities and leases as at September 29, 2019:

US dollars in thousands	Total	2019	2020	2021	2022	2023	Post 2023
Leases	253,517	8,402	25,663	23,600	21,577	18,826	155,449
Accrued benefit liability	6,477	6,172	305	—	—	—	—
	$ 259,994	$ 14,574	$ 25,968	$ 23,600	$ 21,577	$ 18,826	$ 155,449

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 public transit authorities.

Additionally, in the United States, 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 2019 Q3, the Company recorded a bad debt expense of $62.

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 (loss) and total comprehensive income (loss) 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":

	September 29, 2019	December 30, 2018
Current, including holdbacks	$ 415,981	$ 358,729
Past due amounts but not impaired		
1 – 60 days	21,072	24,153
Greater than 60 days	8,272	4,830
Less: Allowance for doubtful accounts	(209)	(226)
Total accounts receivables, net	$ 445,116	$ 387,486

As at September 29, 2019, there was no amount that would otherwise be past due or impaired whose terms have been renegotiated.

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

There are certain financial covenants under the Credit Facility that must be maintained. These financial covenants include an interest coverage ratio and total leverage ratio. At September 29, 2019, the Company was in compliance with the ratios. The results of the financial covenants tests as of such date are as follows:

	September 29, 2019 (excluding IFRS 16)	December 30, 2018
Total Leverage Ratio (must be less than 4.25)	3.75	2.09
Interest Coverage Ratio (must be greater than 3.00)	9.08	13.39

Under the Credit Facility, the total leverage ratio is 3.75 and increases to 4.25, for one year, in the event of a material acquisition. The acquisition of ADL is considered material. The terms of the Credit Facility provide relief for changes in accounting requirements.

(e) 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. 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.

12. SEGMENT INFORMATION

The Company has two reportable segments which are the Company's strategic business units: bus, coach and medium-duty 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 design, manufacture, service and support of new transit buses, coaches, and medium-duty and cutaway buses. Based on management's judgment and applying the aggregation criteria in IFRS 8.12, the Company's transit bus, motor coach and medium-duty and cutaway operations fall under a single reportable segment. Aggregation of these operating segments is based on the segments having similar economic characteristics with similar long-term average returns, products and services, production methods, distribution, geographic market and regulatory environment.

The Manufacturing Operations segment has recorded vendor rebates of $1.9 million (2018: $1.5 million), which have been recognized into earnings during 2019, but for which the full requirements for entitlement to these rebates have not yet been met.

The Aftermarket Operations segment derives its revenue primarily from the sale of parts for transit buses, motor coaches and medium-duty and cutaway buses.

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 and derivative financial instruments. Corporate assets that are shared by both operating segments are allocated fully to the Manufacturing Operations segment.

Segment information about profits and assets is as follows:

	2019 Q3			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 616,008	$ 109,339	—	$ 725,347
Operating costs and expenses	601,776	95,682	26,619	724,077
Earnings (loss) before income tax expense	14,232	13,655	(26,619)	1,268
Total assets	2,253,714	426,409	266,052	2,946,175
Addition of capital expenditures	13,196	153	—	13,349
Addition of goodwill and intangible assets	47,625	—	—	47,625
Goodwill	400,597	151,974	—	552,572

	2019 Q3 YTD			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 1,675,445	$ 300,250	—	$ 1,975,695
Operating costs and expenses	1,607,811	252,146	76,288	1,936,245
Earnings (loss) before income tax expense	67,634	48,102	(76,288)	39,448
Total assets	2,253,714	426,409	266,052	2,946,175
Addition of capital expenditures	30,018	589	—	30,607
Addition of goodwill and intangible assets	338,786	—	—	338,786
Goodwill	400,597	151,974	—	552,571

Goodwill and intangible assets related to acquisition of ADL have been provisionally allocated to Manufacturing operations as at September 29,2019. An allocation to Aftermarket operations will be made in future periods. In 2019 Q3 the company reallocated Goodwill between Manufacturing and Aftermarket based on changes within the business. The impact of the change is an increase in Goodwill in Aftermarket and a decrease in Manufacturing of $20.5 million.

	2018 Q3			
	Manufacturing Operations (restated)	Aftermarket Operations (restated)	Unallocated	Total
Revenue from external customers	$ 512,178	$ 93,164	—	605,342
Operating costs and expenses	465,041	77,841	13,524	556,406
Earnings (loss) before income tax expense	47,137	15,323	(13,524)	48,936
Total assets	1,402,630	396,035	251,532	2,050,197
Addition of capital expenditures	18,730	1,476	—	20,206
Addition of goodwill and intangible assets	—	—	—	—
Goodwill	284,304	151,974	—	436,278

	2018 Q3 YTD			
	Manufacturing Operations (restated)	Aftermarket Operations (restated)	Unallocated	Total
Revenue from external customers	$ 1,565,347	$ 291,654	—	$ 1,857,001
Operating costs and expenses	1,413,676	240,800	42,620	1,697,096
Earnings (loss) before income tax expense	151,671	50,854	(42,620)	159,905
				0
Total assets	1,402,630	396,035	251,532	2,050,197
Addition of capital expenditures	47,737	3,110	—	50,847
Addition of goodwill and intangibles assets	18	—	—	18
Goodwill	284,304	151,974	—	436,278

The Company's revenue by geography is summarized below:

	2019 Q3	2018 Q3	2019 Q3 YTD	2018 Q3 YTD
North America	$ 589,207	$ 605,342	$ 1,797,593	$ 1,857,001
UK and Europe	107,532	—	145,747	—
Asia Pacific	28,297	—	31,726	—
Other	$ 311		$ 629	
Total	$ 725,347	$ 605,342	$ 1,975,695	$ 1,857,001

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

	2019 Q3	2018 Q3	2019 Q3 YTD	2018 Q3 YTD
Transit buses	$ 448,796	$ 369,292	$ 1,272,267	$ 1,124,255
Motor coaches	140,955	112,843	334,539	361,149
Medium-duty and cutaway buses	13,757	11,027	31,629	32,351
Pre-owned coach	11,389	15,469	32,240	35,300
Fiberglass reinforced polymer components	1,111	3,547	4,770	12,292
Manufacturing revenue	$ 616,008	$ 512,178	$ 1,675,445	$ 1,565,347

13. COMMITMENTS AND CONTINGENCIES

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

The Company's guarantee under each bond issued by the surety companies expires on completion of obligations under the customer contract to which the bond relates. The estimated maturity dates of the surety bonds outstanding at September 29, 2019 range from October 2019 to September 2027.

At September 29, 2019, outstanding surety bonds guaranteed by the Company totaled $477.0 million (December 30, 2018: $394.4 million). The Company has not recorded any liability under these guarantees, as management believes that no material events of default exist under any contracts with customers.

(b) The Company has a letter of credit sub-facility of $100.0 million as part of the Credit Facility (December 30, 2018: $100.0 million). As at September 29, 2019, letters of credit totaling $13.8 million (December 30, 2018: $13.8 million) remain outstanding as security for contractual obligations of the Company under the Credit facility.

The Company has an additional bi-lateral credit facility of $63.6 million. As at September 29, 2019, letters of credit totaling $30.2 million were outstanding under the bi-lateral credit facility. Additionally, there are $14.5 million of letters of credit outstanding outside of the Credit Facility and the bi-lateral credit facility.

As at September 29, 2019, management believes that the Company was in compliance in all material respects with all applicable contractual obligations and the Company has not provided for any costs associated with these letters of credit.

14. PROVISIONS

The Company's insurance risk retention meets the IFRS definition of provisions, a liability with uncertain timing or amount.

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 movements in the provision for the insurance risk retention and base warranty costs during the periods are as follows:

	Insurance Risk Retention	Warranty	Total
December 30, 2018	$ 24,504	76,280	100,784
Assumed as a result of business acquisitions	—	7,214	7,214
Additions	6,391	35,909	42,300
Amounts used	(3,717)	(31,846)	(35,563)
Unused warranty provision	—	(17,629)	(17,629)
Unwinding of discount and effect of changes in the discount rate	—	111	111
Exchange rate differences	—	(155)	(155)
	$ 27,178	$ 69,884	$ 97,062
Less current portion	3,000	28,621	31,621
September 29, 2019	$ 24,178	$ 41,263	$ 65,441

15. CURRENT PORTION OF LONG-TERM LIABILITIES

	September 29, 2019	December 30, 2018
Deferred revenue	$ 99,153	$ 31,859
Provisions (note 14)	31,621	35,838
Other long-term liabilities	711	—
Deferred compensation obligation	2,337	4,677
Obligations under leases (note 2)	18,951	7,936
	$ 152,773	$ 80,310