NFI GROUP

Financial Results Fiscal 2019

March 11, 2020

NOTES TO READERS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS AND 52-WEEKS ENDED DECEMBER 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 audited consolidated financial statements (including notes) (the "Financial Statements") for the 52-week period ended December 29, 2019. 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" in Appendix B. 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.

	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

Specific references, definitions and non-GAAP measures are used throughout this MD&A, please see "Meaning of Certain References" and "Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings, Adjusted Earnings per Share, and Regions including: North America, UK and Europe, Asia Pacific and Other" and EU's in Appendix B.

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. "Product lines" include heavy-duty transit, motor coach, pre-owned coach and cutaway and medium-duty. 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.

A summary of the Company's order, delivery and backlog information can be found in Appendix C.

Effective December 31, 2018, the Company adopted IFRS 16, the accounting standard which specifies how to recognize, present and disclose leases. This standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases. On transition, the Company has elected to use the following practical expedients and policies:

- 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 International Accounting Standard 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
- To exclude the recognition of the right-of-use asset and lease liability for leases and of low-value assets and to value the right-of-use asset as equal to the lease liability, adjusting for related amounts prepaid or accrued

The impact of the adoption of IFRS 16 primarily impacts NFI's Gross Margin, Adjusted EBITDA, Net earnings and Adjusted Net Earnings, and the associated per common share ("Share") amounts, Return on Invested Capital ("ROIC") and several balance sheet accounts as reported in the Financial Statements and MD&A.

DEMONSTRATING OUR RESILIENCY

Fellow shareholders,

Fiscal 2019 was a period of significant milestones for NFI as we completed the transformative acquisition of Alexander Dennis Limited and continued to secure our position as a market leader in zero emission buses. NFI is now one of the world's largest independent bus and coach manufacturers with operations in 10 countries and with 9,300 team members around the world supporting a fleet of over 105,000 vehicles in service. We are solely focused on bus and coach design, manufacture, service and support which provides a competitive advantage over many of our more broad competitors.

While there were many achievements during 2019, they were somewhat offset by challenges. The combination of learning curve associated with the launch of several new bus and coach models and the ramp-up of a parts fabrication facility in Kentucky were not as successful as originally planned, resulting in operational issues and significant work-in-progress build up. One year does not a company make. The successful execution of our company wide plan to reduce work-in-progress inventory significantly contributed lowering our total debt and leverage ratio by year-end. We have now moved past the challenges that impacted us in 2019 and are focused on delivering results in 2020. We expect to see growth in revenue, Adjusted EBITDA, Free Cash Flow and EPS while maintaining leadership positions in all of our core markets, and delivering an increasingly broad portfolio of mobility solutions to our customers.

As we begin this new decade we look forward with increased confidence, based on our fourth quarter 2019 financial results which saw record quarterly vehicle deliveries and the highest revenue and Adjusted EBITDA in NFI's history. Management and the Board are aligned and focused on driving results in 2020 while also ensuring that we deliver for all our stakeholders including our employees, customers (and their customers), shareholders, suppliers, our community partners and the environment. The addition of ADL to the NFI Group adds scope and scale plus substantial international experience that will play a key role in our future.

Social and environmental governance have always been pillars for NFI and will continue to be a focus. Finally, in a rapidly changing global economy the Board is ensuring that we have the appropriate risk mitigation plans in place to ensure that NFI Group is prepared for obstacles as they arise.

The Honourable Brian V. Tobin, P.C., OC. Chairman of the Board
NFI Group Inc.

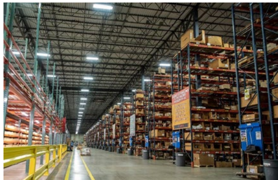
Paul Soubry
President & Chief Executive Officer
NFI Group Inc.

"Following a challenging year in 2019 we are focused on delivering on our 2020 plan and driving shareholder returns through performance and dividends"

A LEADING INDEPENDENT GLOBAL BUS AND COACH MANUFACTURER

NFI GROUP

ARBOC



FY 2019 Highlights (US$)

$2.9 billion
Revenue

5,315
EUs delivered

$322 million
Adjusted EBITDA

$160 million
Free Cash Flow

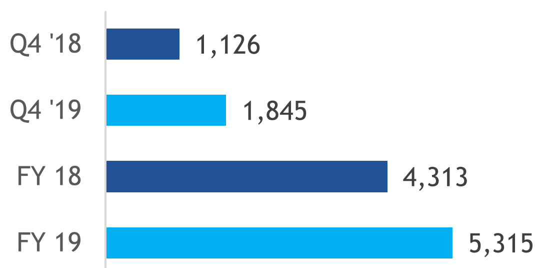
$1.65
Adjusted Net Earnings per Share

$5.2 billion
Ending Backlog of 10,742 EUs

105,000
Vehicles in Service

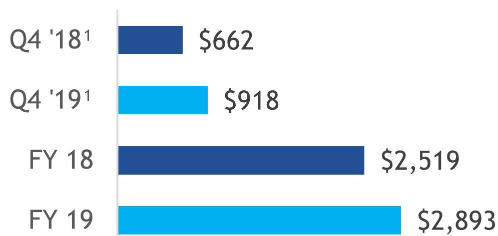
9,300
Team Members

KEY PERFORMANCE INDICATORS



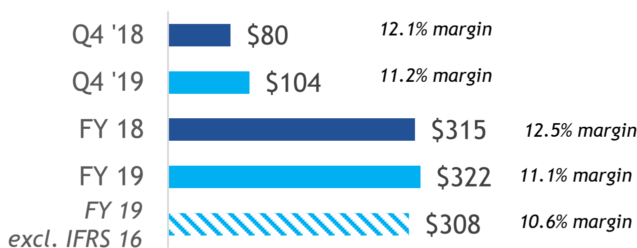
Increase in quarterly deliveries was driven by NFI's transformative acquisition of ADL and the Company's focus on work-in-progress ("WIP") reduction. NFI reported record fourth quarter deliveries of 1,845 EUs, an increase of 64% from 2018. All three product lines of NFI saw increases in quarterly deliveries.

For the year NFI delivered 5,215 EUs, an increase of 23%, driven by the strength of fourth quarter deliveries.



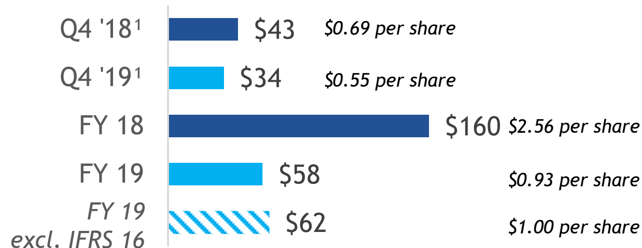
The significant increase in deliveries drove record quarterly and annual revenue. Revenue increased by 39% from 2019 Q4 to 2018 Q4.

Full year revenue increased by 15% to a record $2.9 billion driven by the acquisition of ADL and NFI's strong fourth quarter.



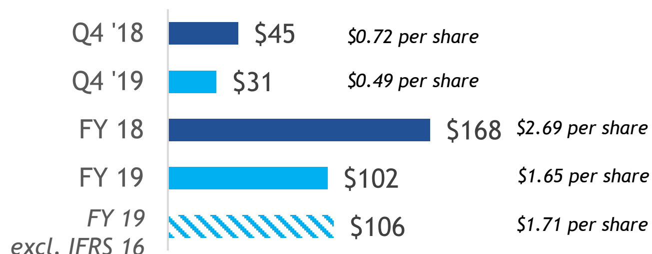
Fourth quarter Adjusted EBITDA increased by 30% primarily as a result of record deliveries and revenue, favourable sales mix within the Aftermarket segment and reduced corporate expenses related to lower performance incentives offset by higher SG&A costs from the acquisition of ADL.

Full year Adjusted EBITDA increased by 2% with the strong fourth-quarter results offset by delivery challenges experienced during the first three quarters of 2019 from KMG, learning curve challenges on new products and margin pressure within the bus and coach businesses. Excluding the impact of IFRS 16, Fiscal 2019 Adjusted EBITDA would have been $308.0 million



Fourth quarter net earnings decreased by 20% driven by adjustments for purchase accounting, higher interest and income taxes.

Full year net earnings decreased due to the same items that impacted Adjusted EBITDA, plus ADL acquisition costs, adjustments for purchase accounting, interest on long-term debt, and fair value adjustments on foreign exchange and interest contracts. Full year net earnings, excluding the impact of IFRS 16, was $62 million or $1.00 per share.



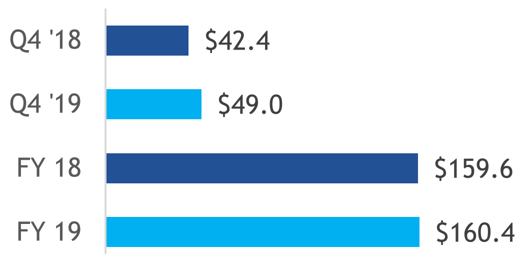
Fourth quarter Adjusted net earnings decreased by 31%. The decrease was driven by the items noted above for net earnings as well as the adjustment for a $4 million gain on interest rate swap in 2019 Q4, compared to the adjustment of a $2 million loss in 2018 Q4.

Full year Adjusted net earnings decreased by 39% due to the items noted above in net earnings, offset by adjustments related to costs and fair value adjustments associated with the purchase of ADL. A full reconciliation of Adjusted net earnings for both the quarter and Fiscal 2019 is provided on page 18. Full year Adjusted net earnings, excluding the impact of IFRS 16, was $106 million.

1 Unaudited quarterly results
2 Non-IFRS Measure - See Appendix B

KEY PERFORMANCE INDICATORS

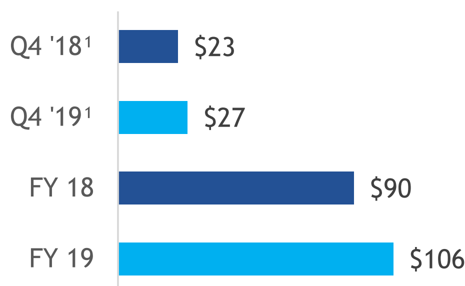
Free Cash Flow [2]



Fourth quarter Free Cash Flow increased by 16% year-over-year due to the increases in revenue and Adjusted EBITDA, and lower cash capital expenditures offset by higher interest and taxes.

Full year Free Cash Flow was essentially flat with Fiscal 2018 as higher Adjusted EBITDA and lower capital expenditures were offset by higher taxes and interest expense.

Declared Dividends ($CAD)

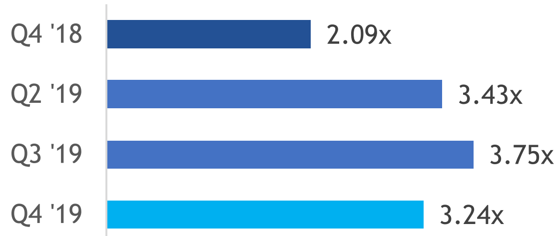


2019 Q4 declared dividends increased by 16% as a result of the Board of Directors approving a 13% increase in the dividend per Share rate in March 2019 partially offset by a lower number of Shares outstanding as a result of the purchases of Shares by the Company under its the Normal Course Issuer Bid ("NCIB") in 2019 Q1. Offsetting NCIB purchases was the issuance of shares as part of the proceeds of the ADL transaction completed in May 2019.

Fiscal 2019 declared dividends increased by 17% due to the higher dividend per Share rate in offset by the lower number of Shares as a result of the Company's use of its NCIB, which were somewhat offset by the ADL transaction.

Dividends declared represent a payout ratio of 41% in 2019 Q4 and 50% in Fiscal 2019

Total Leverage Ratio



Total Leverage Ratio of 3.24x decreased by 0.51x from 2019 Q3 to 2019 Q4. The decrease Leverage primarily relates to changes in non-cash working capital due to decreases in work-in-progress ("WIP") inventory, somewhat offset by the amount of capital returned to shareholders through dividends.

Backlog (EUs)

Backlog was relatively stable from 2018 Q4 to 2019 Q4, and down by 852 EUs from 2019 Q3. The third quarter backlog was especially high due to pent-up deliveries through the first three quarters of the year as a result of the build-up of WIP. Backlog lowered in the fourth quarter as the Company executed on its WIP recovery plan and completed record deliveries.

The ending backlog at 2019 Q4 included 4,224 EU firm and 6,518 EU option orders.

ROIC [2]

ROIC decreased 4 percentage points with overall improvements to Adjusted EBITDA from higher deliveries and aftermarket growth offset by delivery challenges felt during the first three quarters of 2019 from KMG, learning curve on new products, invested capital related to the acquisition of ADL, elevated working capital from higher WIP and margin pressure within the coach business. In addition ROIC was also impacted by accounting adjustments related to the ADL acquisition.

1 Unaudited quarterly results
2 Non-IFRS Measure - See Appendix B

2019 Q4 HIGHLIGHTS

During the fourth quarter of 2019 the Company was focused on executing its WIP reduction plan while continuing to complete integration activities with ADL. Management is pleased to report that nearly all of the targeted excess vehicles in WIP were delivered during the quarter and that delivery activity for the period was also very busy for private motor coach, low-floor and medium-duty cutaway, and ADL vehicles.

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 Fiscal 2019 of 50%. 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. The Board will consider potential dividend increases as total leverage is decreased as per the ADL acquisition plan.

Other significant events during the quarter included:

- The 2019 Q4 Canada and U.S. active Bid Universe continued to show strength with active bids up by 1,963 EUs compared to 2018 Q4, and the total Bid Universe up by 4,223, representing increases of 72% and 18%, respectively.
- Canadian and U.S. heavy-duty transit markets finished 2019 with deliveries of 6,753 EU, up 4% over 2018, based on industry sources. The American Bus Association reported coach market deliveries of 2,053 EUs in 2019 down by 10% from 2018. New Flyer market share for 2019 was 41.2%, down 1.6% from the previous year, due primarily to New Flyer deliveries being impacted by operational challenges. MCI market share was 46.1%, up 1.2% from 2018 with increased penetration from its new models.
- Based on data from the Society of Motor Manufacturers and Traders, ADL's largest market, UK transit, finished with deliveries of 1,728 EUs, down 13% from 2018. ADL increased its market share to 72%, up from 67% in 2018. Other ADL markets remained broadly stable with Hong Kong moving past its peak delivery cycle.
- MCI received significant orders for its D45 Commuter Rapid Transit Low Entry ("D45 CRT LE") diesel commuter vehicles from customers in Phoenix, AZ and the Bay Area in California.
- ADL continued its strong relationship with Hong Kong customer Kowloon Motor Bus Co., with an order for an additional 180 Enviro500 double deck buses.
- NFI continued to realize upon its strategy to be the leader in zero-emission buses ("ZEBs") and had the largest share of 2019 ZEB deliveries in North America and UK heavy-duty transit markets. NFI had battery electric bus deliveries from ADL into London and Glasgow and new orders in the UK and New Zealand. New Flyer delivered ZEBs into Toronto, Los Angeles, Laval and San Diego. New Flyer also received new orders in New York, NY and was selected by the California Department of General Services as an approved supplier for zero-emission buses.
- MCI debuted its 2020 model lineup with a preview of its new battery-electric D45 CRT LE vehicle.
- ADL completed a demo of its autonomous Enviro200 vehicle in Glasgow at the Connected and Autonomous Vehicle Summit.
- NFI held its November 2019 Investor Day in Toronto to update the market on its strategic priorities surrounding the acquisition of ADL and the global transition to ZEBs and mobility solutions.
- NFI and its subsidiaries set a new record for its employee lead United Way fundraising goals, exceeding the prior year by 8%.
- NFI announced the selection of its new Chief Financial Officer, Mr. Pipasu H. Soni, who joined the company in December 2019 and will succeed Mr. Glenn Asham as CFO on March 27, 2020

1,159
2019 Q4 New Orders

0.51x
Leverage reduced to 3.24x

$263M
WIP decrease of $32M

85%
Book-to-Bill

18%
YoY North American Bid Universe Growth

RECORD DELIVERIES AND REVENUE

Driven by the transformative acquisition of ADL, NFI reported record deliveries of 5,315 EUs in 2019, an increase of 23% from the same period in 2018. All three product lines of NFI saw increase in quarterly deliveries with a 64% increase from 2018 Q4 to 2019 Q4.

Full details of the Company's orders, delivery and backlog information can be found in Appendix C.

Deliveries (EUs)	Q4 2019	Q4 2018	*% Change*	2019	2018	*% Change*
Heavy-Duty Transit (single and Double Deck)	1,347	679	*98%*	3,931	2,781	*41%*
Motor Coach	389	341	*14%*	1,036	1,030	*-%*
Cutaway and Medium-Duty	109	106	*3%*	348	502	*(31%)*
New Vehicle Deliveries	**1,845**	**1,126**	***64%***	**5,315**	**4,313**	*23%*
Pre-Owned Coach Sold	176	187	*(6%)*	469	468	-

Revenue (unaudited quarterly results, audited full year results, dollars in millions)	Q4 2019	Q4 2018	*% Change*	2019	2018	*% Change*
Heavy-Duty Transit (single and Double Deck)	$574.9	$377.9	*52%*	$1,847.1	$1,502.3	*23%*
Motor Coach	192.0	176.0	*9%*	526.5	537.1	*-2%*
Cutaway and Medium-Duty	18.2	9.4	*94%*	49.8	41.7	*19%*
New Vehicle Revenue	**$785.1**	**$563.3**	***39%***	**$2,423.4**	**$2,081.1**	*16%*
Pre-Owned Coach Sales	13.7	11.0	*25%*	46.0	46.3	*-%*
3rd Party Fiber Reinforced Polymer	1.8	2.2	*(18%)*	6.6	14.5	(54%)
Total Manufacturing	**$800.6**	**$576.5**	***39%***	**$2,476.0**	**$2,141.9**	**16%**
Aftermarket	117.1	85.5	*37%*	417.4	377.1	*11%*
Total Revenue	**$917.7**	**$662.0**	***39%***	**$2,893.4**	**$2,519.0**	***15%***
North America	710.6	662.0	*7%*	2,508.2	2,519.0	-
United Kingdom and Europe	174.3	-		320.1	-	
Asia Pacific	32.0	-		63.7	-	
Other	0.8	-		1.4	-	

SEGMENT PERFORMANCE

Adjusted EBITDA (unaudited, dollars in millions)	Q4 2019	Q4 2018	% Change	2019	2018	% Change
Manufacturing	85.7	72.8	*18%*	256.1	276.0	*(7%)*
Aftermarket	18.4	17.3	*6%*	74.6	73.7	*1%*
Corporate	(0.3)	(10.3)	*97%*	(8.5)	(34.3)	*75%*
Total Adjusted EBITDA	**$103.9**	**$79.9**	***30%***	**$322.2**	**$315.4**	*2%*
Adjusted EBITDA as a percentage of revenue						
Manufacturing	10.7%	12.6%	*(1.9%)*	10.3%	12.9%	(2.6%)
Aftermarket	15.7%	20.2%	*(4.5%)*	17.9%	19.5%	(1.6%)
Total	**11.3%**	**12.1%**	***(0.8%)***	**11.1%**	**12.5%**	**(1.4%)**

Net Earnings (unaudited quarterly results, audited full year results, dollars in millions)	Q4 2019	Q4 2018	% Change	2019	2018	% Change
Manufacturing	35.1	47.0	*(25%)*	86.9	155.2	*(44%)*
Aftermarket	11.9	15.5	*(23%)*	60.1	67.0	*(10%)*
Corporate	(12.9)	(19.7)	*34%*	(89.2)	(62.3)	*(43%)*
Net earnings	**$34.1**	**$42.8**	***(20%)***	**$57.7**	**$159.9**	*(64%)*

2019 Q4 Manufacturing Adjusted EBITDA increased by $12.9 million due to higher quarterly deliveries from all product lines and the addition of ADL. Manufacturing 2019 Q4 net earnings decreased by 25% with increases in Adjusted EBITDA offset by higher depreciation and costs associated with accounting adjustments related to the acquisition of ADL. Full year 2019 Manufacturing Adjusted EBITDA decreased by $19.9 million with the addition of ADL and overall higher heavy-duty transit vehicle deliveries offset by the impact of KMG, learning curve on new model launches, product mix, margin pressure within the coach business and lower cutaway and medium-duty deliveries. Fiscal 2019 Manufacturing net earnings decreased by $68.3 million, or 44%, due to lower Adjusted EBITDA discussed above plus higher depreciation and costs associated with accounting adjustments related to the acquisition of ADL.

2019 Q4 Aftermarket Adjusted EBITDA increased by $1.1, or 6%, with volume increases from ADL and improved margins from product mix offset by increased SG&A costs from the addition of ADL into the Aftermarket segment. Aftermarket 2019 Q4 net earnings decreased by $3.6 million with the improvements in Adjusted EBITDA being offset by higher depreciation and expenses associated with accounting adjustments related to the acquisition of ADL. Full year 2019 Aftermarket Adjusted EBITDA increased by $0.9 million, or 1%, with volume increases from ADL offset by increased SG&A costs from the addition of ADL. Full year 2019 Aftermarket net earnings decreased by $6.9 million due to higher depreciation and expenses associated with accounting adjustments related to the acquisition of ADL.

The improvement in Corporate Adjusted EBITDA was driven by lower long-term and short-term incentive plan payments with reductions of $10.0 million, or 97%, in 2019 Q4 and $25.8 million, or 75% for the full year.

2020 OUTLOOK

Management remains optimistic about the Company's overall end markets. Public transit remains a primary method of transportation for millions of users, the age of the population is increasing and numerous jurisdictions are implementing strategies to improve accessibility through advanced mobility solutions while improving air quality through the migration to zero-emission propulsion technology for buses and coaches. While the Company's overall outlook is positive, management does expect increased competition, softness in some segments and geographic regions and timing of the ZEB transition to impact project awards, deliveries and margins during Fiscal 2020. The Outlook for each of the Company's two reporting segments is provided below. Management continues to expect its transformative acquisition of ADL to be 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.

As the Company's product offering and geographic diversity is now broader, for the first-time management is introducing annual Adjusted EBITDA guidance for Fiscal 2020 with a range of $320 million to $350 million, which could represent growth of up to 9% on a year-over-year basis.

Financial Guidance Full Year 2020	
Adjusted EBITDA	$320 million - $350 million
Cash Capital Expenditures	$45 million - $55 million
Effective Tax Rate ("ETR")	31% - 33%
Free Cash Flow Conversion (as a % of Adjusted EBITDA)	45% - 50%
Seasonality	Q1 down slightly, growth in Q2, Q3 and Q4

The above table outlines guidance ranges for selected Fiscal 2020 consolidated financial metrics. These ranges take into consideration our current outlook and our Fiscal 2019 results and are based on the assumptions set out below. The purpose of the financial guidance is to assist investors, shareholders and others in understanding certain financial metrics relating to expected Fiscal 2020 financial results for evaluating the performance of our business. The information may not be appropriate for other purposes. Information about our guidance, including the various assumptions underlying it, is forward looking and should be read in conjunction with the section "Forward-looking Statements" in Appendix B and the related disclosure and information about various economic competitive and regulatory assumptions, factors and risks that may cause actual future financial and operating results to differ from management's current expectations. Note that potential impact of COVID-19 (also known as "Coronavirus") is not included in guidance ranges provided above. COVID-19 has not had a material impact on NFI's operations as of March 12, 2020.

The guidance ranges provided above are driven by numerous assumptions including, but not limited to, the following:

- Does not include any potential impact from COVID-19
- Adjusted EBITDA expectations are based on management's expectations of mid-teen revenue percentage growth, assisted by a full year of ADL operations plus the Company's existing backlog and anticipated new orders and margin improvement as NFI's KMG parts fabrication facility shifts from a loss position to profitability with operations no longer delaying new vehicle production.
- The lower end of the Adjusted EBITDA range is based on scenarios where production is negatively impacted by new model learning curves, weather delays and supply disruption.
- Expected Fiscal 2020 cash capital expenditures are primarily maintenance expenditures with some growth spending following periods of increased investment from 2017 to 2019, primarily driven by strategic projects.
- The Company's ETR range for Fiscal 2020 is based on the Company's corporate structure, operating jurisdictions, existing and proposed tax legislation. It excludes the impact of purchase accounting adjustments related to the acquisition of ADL and other one-time items which may increase the expected ETR. Looking forward, management expects the ETR to decline as global activities are reflected in the Company's financial results.
- FCF conversion is based on the Company's Adjusted EBITDA expectations, historic FCF conversion, projected cash capital expenditures and cash interest and tax expectations.

NFI

2020 OUTLOOK

Management notes that the Company’s annual delivery schedule has notable seasonality due to the nature of each unique market segment and the varied annual production and vacation schedules of each production facility. Even after accounting for the addition of ADL, management expects that the first quarter will be the Company’s slowest period, and potentially flat with the prior-year, with increased activity expected to occur in the second, third and fourth quarters. Some vehicle deliveries may shift from quarter-to-quarter depending on timing of client inspections and acceptance processes.

NFI is closely monitoring the COVID-19 virus outbreak and while NFI is experiencing some supply delays, the virus has not materially impacted NFI’s production operations nor has the Company experienced any adverse impact on delivery of our products. Additional supply delays and possible shortages of critical components may arise if the disruption of certain suppliers' operations and/or subcomponent supply from China or elsewhere continue or escalate. Such occurrences or negative impacts of the outbreak on customer demand for our products could potentially have a material adverse effect on NFI’s operations. NFI is monitoring the dynamic situation and actively assessing supply alternatives and developing appropriate mitigation plans. Given that it is nearly impossible to accurately forecast the impact of COVID-19 on NFI, the Company has not included any adjustment related to it in the 2020 guidance or other outlook information contained in the MD&A.

To date, COVID-19 has not caused any delays or reductions in planned vehicle deliveries but could potentially have an impact on our end-customers. While every operator is different, they are all focused on continuing to offer a clean and safe experience for their customers. If the virus continues to spread and prevention policies are escalated there could potentially be an impact on travel of customer inspectors which could impact NFI’s new build or bus/coach delivery and acceptance programs. There could also be an impact of lower ridership for operators, which could decrease demand for new and pre-owned vehicles.

Management is focused on deleveraging and believes that the Company's combined financial results will enable it to return to a target of 2.0x to 2.5x net debt to Adjusted EBITDA within the next 18 months, without impacting the Company's dividend policy and provide the flexibility to evaluate potential growth in the annual dividend rate.

Manufacturing

Management expects to see growth in the Manufacturing segment from 2020 to 2022 due to several factors. Demand in North America is anticipated to continue to be healthy, with 2019 deliveries up 4% over 2018, driven by aging fleets, economic conditions, dedicated U.S. federal funding and expected customer fleet replacement plans based on the Company's discussion with transit agencies and its total Bid Universe. While overall demand is expected to remain healthy, management anticipates there will be more smaller firm orders, increased use of state contracts for procurements and fewer long-term option orders as transit agencies increase their purchases of ZEBs and want to maintain flexibility in propulsion type during this transition. These market dynamics play into NFI’s strength of being propulsion agnostic.

The UK market is expected be relatively flat in 2020, following a decline of 13% in 2019, with potential for modest growth, 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 has provided numerous opportunities for ADL to grow its industry leading market share in the UK. This competitive change also saw ADL win a major award in the Republic of Ireland. Asia Pacific markets continue to vary by jurisdiction. The highly cyclical Hong Kong heavy-duty transit market came off peak demand to lower, but stable deliveries, which are expected to continue for several years. ADL continues to expand in Asia Pacific with significant contract wins in Singapore and further penetration into the New Zealand market. Management expects to see increased growth over the long-term from UK market recovery and increased deliveries in the European region from its landmark contract win in Berlin, with significant deliveries into that market starting in 2021.

ZEBs are expected to continue to grow and be a larger percentage of New Flyer and ADL vehicle deliveries. NFI is the only manufacturer in North America 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, with many vehicles in operation delivering clean, safe and reliable

2020 OUTLOOK

transportation on the proven Xcelsior platform. NFI's Infrastructure Solutions offering is also expected to grow as it supports transit agencies charging infrastructure requirements. ADL through its partnership with BYD is the market leader for ZEBs in the UK and is growing its presence in New Zealand. ZEBs represented 7% of ADL's total 2019 deliveries. MCI is continuing the development and testing of its battery-electric motor coaches and ARBOC has recently launched an electrification program for the Equess medium-duty bus.

While overall motor coach deliveries in North America declined by 10% in 2019, and are expected to decline again in 2020, management expects that the Company can continue to gain market share, which was up 1.3% in 2019, from its expanded product portfolio. Management anticipates 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 a very small component of the segment. 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. 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. Management does not anticipate any chassis related supply disruptions in 2020 for its low-floor cutaway vehicles. ARBOC is also focused 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.

Aftermarket

NFI Parts continues to focus on numerous strategic initiatives to counter adverse market pressures, a decreasing installed base of NFI vehicles, 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. In 2020, NFI parts is looking to expand sales of ARBOC and cutaway spare parts and is exploring North American co-operation with ADL parts.

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. Management expects ADL Aftermarket revenue 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.

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						
	Q4	$ 917,741	$ 69,958	$ 34,127	$ 103,875	$ 0.55
	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	**$ 2,893,436**	**$ 173,064**	**$ 57,698**	**$ 322,167**	**$ 0.93**
2019 - Excluding the impact of IFRS 16						
	Q4	$ 917,741	$ 70,023	$ 35,767	$ 99,952	$ 0.57
	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	0.30
	Total	**$ 2,893,436**	**$ 171,050**	**$ 62,009**	**$ 308,013**	**$ 1.00**
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” in Appendix B. Management believes that Adjusted EBITDA and ROIC are useful supplemental measures in evaluating performance of NFI.

COMPARISON OF FOURTH QUARTER 2019 RESULTS

(Unaudited, U.S. dollars in thousands)

	2019 Q4	2018 Q4	Fiscal 2019	Fiscal 2018
Statement of Earnings Data				
Revenue				
North America	$ 617,553	$ 576,520	$ 2,142,895	$ 2,141,867
United Kingdom and Europe	154,820	—	277,669	—
Asia Pacific	28,202	—	55,456	—
Other	—	—	—	—
Manufacturing operations	800,575	576,520	2,476,020	2,141,867
North America	93,053	85,500	365,304	377,154
United Kingdom and Europe	19,549	—	42,447	—
Asia Pacific	3,775	—	8,247	—
Other	789	—	1,418	—
Aftermarket operations	117,166	85,500	417,416	377,154
Total revenue	$ 917,741	$ 662,020	$ 2,893,436	$ 2,519,021
Earnings from operations	$ 69,958	$ 60,570	$ 173,064	$ 237,855
Earnings before interest and income taxes	71,546	61,405	173,050	238,345
Net earnings	34,127	42,815	57,698	159,942
Adjusted EBITDA[1]	$ 103,875	$ 79,868	$ 322,167	$ 315,354
Statement of Earnings Data, excluding IFRS 16				
Earnings from operations	$ 70,023	$ 60,570	171,050	237,855
Earnings before interest and income taxes	$ 71,612	61,405	171,038	238,345
Net earnings	35,767	42,815	62,009	159,942
Adjusted EBITDA[1]	99,952	79,868	308,013	315,354
Capital expenditures	$ 7,618	$ 20,144	$ 41,757	$ 70,991

(Footnotes on page 16 and 17)

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" in Appendix B. The following tables reconcile net earnings or losses to Adjusted EBITDA based on the historical Financial Statements of the Company for the periods indicated. See Appendix A for ADL Adjusted EBITDA reconciliation for information related to historical ADL performance.

(Unaudited, U.S. dollars in thousands)

	2019 Q4	2018 Q4	Fiscal 2019	Fiscal 2018
Net earnings	34,127	42,815	57,698	159,942
Addback[(1)]				
Income taxes	26,118	7,933	41,997	50,711
Interest expense	11,301	10,657	73,355	27,693
Amortization	31,134	18,017	104,570	67,796
Loss (gain) on disposition of property, plant and equipment	52	(8)	(46)	267
Fair value adjustment for total return swap[(10)]	273	5,629	949	6,547
Unrealized foreign exchange loss (gain) on non-current monetary items and forward foreign exchange contracts	(1,640)	1,311	60	1,381
Costs associated with assessing strategic and corporate initiatives[(7)]	(616)	—	13,069	137
Past service costs[(11)] and other pension costs	70	—	(1,601)	6,482
Non-recurring restructuring costs [(8)]	364	—	364	—
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue[(9)]	2,156	—	31,004	266
Proportion of the total return swap realized[(8)]	(203)	(4,382)	(626)	(5,139)
Equity settled stock-based compensation	437	34	1,566	1,409
Recovery on currency transactions[(13)]	—	—	(4,287)	—
Prior year sales tax provision [(14)]	300	—	4,094	—
Release of provisions related to purchase accounting[(12)]	—	(2,138)	—	(2,138)
Adjusted EBITDA[(1)]	103,875	79,868	322,167	315,354
Adjusted EBITDA is comprised of:				
Manufacturing	$ 85,715	$ 72,817	$ 256,097	$ 275,970
Aftermarket	18,413	17,339	74,572	73,655
Corporate	(254)	(10,288)	(8,503)	(34,271)

See page 16 and 17 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 its unsecured revolving credit facility "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" in Appendix B.

(Unaudited, U.S. dollars in thousands, except per Share figures)

	2019 Q4	2018 Q4	Fiscal 2019	Fiscal 2018
Net cash generated from operating activities	$ 163,761	$ 67,340	$ 98,608	$ 175,144
Changes in non-cash working capital items[3]	(85,382)	1,992	91,324	34,344
Interest paid[3]	15,447	6,338	47,676	23,073
Interest expense[3]	(15,631)	(6,273)	(50,546)	(23,546)
Income taxes paid[3]	7,228	12,154	40,167	73,082
Current income tax expense[3]	(30,842)	(9,495)	(61,339)	(56,263)
Principal portion of finance lease payments	(1,400)	(1,547)	(12,456)	(5,125)
Cash capital expenditures	(6,968)	(20,144)	(37,575)	(70,991)
Proceeds from disposition of property, plant and equipment	—	10	174	235
Costs associated with assessing strategic and corporate initiatives[7]	(616)	—	13,069	137
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue [9]	2,156	—	31,004	266
Defined benefit funding[4]	1,969	608	8,140	22,241
Defined benefit expense[4]	(1,322)	(1,755)	(5,849)	(12,333)
Past service costs[11] and other pension costs	70	—	(1,601)	6,482
Proportion of the total return swap[10]	(203)	(4,382)	(626)	(5,138)
Recovery on currency transactions[13]	—	—	(4,287)	—
Prior year sales tax provision [14]	300	—	4,094	—
Non-recurring restructuring costs[8]	364	—	364	—
Gain on release of provision related to purchase accounting[12]	—	(2,138)	—	(2,138)
Foreign exchange gain (loss) on cash held in foreign currency[5]	102	(289)	83	194
Free Cash Flow (US$)[1]	$ 49,033	$ 42,419	$ 160,424	$ 159,664
U.S. exchange rate[2]	1.3076	1.3638	1.3180	1.3183
Free Cash Flow (C$)[1]	64,116	57,851	211,439	210,485
Free Cash Flow per Share (C$)[6]	1.0269	0.9302	3.4200	3.3733
Declared dividends on Shares (C$)	26,561	22,890	105,462	90,343
Declared dividends per Share (C$)[6]	$ 0.4253	$ 0.3680	$ 1.7062	$ 1.4479

(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 Appendix B for "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 Credit Facility 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$) are determined by dividing Free Cash Flow by the total number of all issued and outstanding Shares using the weighted average over the period. The weighted average number of Shares outstanding for 2019 Q4 was 62,434,520 and 62,192409 for 2018 Q4. The weighted average number of Shares outstanding for Fiscal 2019 and Fiscal 2018 are 61,809,479 and 62,396,962 respectively. Per Share calculations for declared dividends (C$) 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 restructuring costs.

(9) The revaluation of ARBOC's inventory included an adjustment of $0.5 million of which $0.3 million negatively impacted 2018 YTD net earnings. The revaluation of ADL's inventory included an adjustment of $2.2 million in 2019 Q4 and $31.0 million in Fiscal 2019. 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" in Appendix B. The following tables reconcile net earnings to Adjusted Net Earnings based on the historical Financial Statements of the Company for the periods indicated.

(Unaudited, U.S. dollars in thousands other than earnings per Share and Adjusted Earnings per Share)	2019 Q4	2018 Q4	Fiscal 2019	Fiscal 2018
Net earnings	$ 34,127	42,815	$ 57,698	$ 159,942
Net earnings, excluding IFRS 16	$ 35,767	42,815	62,009	159,942
Adjustments, net of tax [1] [10]				
Fair value adjustments of total return swap[7]	145	4,274	549	4,971
Unrealized foreign exchange (gain) loss	(981)	995	35	1,049
Unrealized (gain) loss on interest rate swap	(3,115)	1,682	12,721	630
Portion of the total return swap realized[8]	(109)	(3,325)	(362)	(3,900)
Costs associated with assessing strategic and corporate initiatives[4]	(616)	—	13,069	104
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue[6]	707	—	17,943	202
Equity settled stock-based compensation	231	26	906	1,070
Gain on disposition of property, plant and equipment	32	(6)	(27)	203
Past service costs[9] and other pension costs	71	—	(927)	4,922
Gain on release of provision related to purchase accounting [11]	—	(1,623)	—	(1,623)
Recovery on currency transactions[12]	80	—	(2,481)	—
Prior year sales tax provision [13]	102	—	2,369	—
Non-recurring restructuring costs [5]	211	—	211	—
Adjusted Net Earnings	30,885	44,838	101,704	167,570
Adjusted Net Earnings, excluding IFRS 16	$ 32,525	$ 44,838	$ 106,015	$ 167,570
Earnings per Share (basic)	$ 0.55	$ 0.69	$ 0.93	$ 2.56
Earnings per Share (fully diluted)	$ 0.55	$ 0.68	$ 0.93	$ 2.55
Adjusted Earnings per Share (basic)	$ 0.49	$ 0.72	$ 1.65	$ 2.69
Adjusted Earnings per Share (fully diluted)	$ 0.49	$ 0.72	$ 1.64	$ 2.67
Earnings per Share and Adjusted Earnings per Share, excluding IFRS 16				
Earnings per Share (basic)	$ 0.57	$ 0.69	$ 1.00	$ 2.56
Earnings per Share (fully diluted)	$ 0.57	$ 0.68	$ 1.00	$ 2.55
Adjusted Earnings per Share (basic)	$ 0.52	$ 0.72	$ 1.71	$ 2.69
Adjusted Earnings per Share (fully diluted)	$ 0.52	$ 0.72	$ 1.71	$ 2.67

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" in Appendix B. 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 restructuring costs.
6. The revaluation of ADL's inventory included an adjustment of $2.2 million in 2019 Q4 after-tax value of $(0.5) million and $31.0 million in Fiscal 2019 after-tax value of $16.7 million. ARBOC's inventory included an adjustment of $0.3 million or $0.2 million after-tax in 2018 Q2. 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.

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 Q4 results, U.S. dollars in thousands)	2019 Q4	2019 Q4 (excluding IFRS 16)	2018 Q4	Fiscal 2019	Fiscal 2019 (excluding IFRS 16)	Fiscal 2018
Manufacturing Revenue	800,575	800,575	576,520	2,476,020	2,476,020	2,141,867
Aftermarket Revenue	117,166	117,166	85,500	417,416	417,416	377,154
Total Revenue	917,741	917,741	$ 662,020	$ 2,893,436	$ 2,893,436	$ 2,519,021
Earnings from Operations	$ 69,958	$ 70,023	$ 60,570	$ 173,064	$ 171,050	$ 237,855
Earnings before interest and income taxes	71,546	71,612	61,405	173,050	171,038	238,345
Earnings before income tax expense	60,245	60,312	50,748	99,695	97,683	210,653
Net earnings for the period	34,127	35,767	42,815	57,698	62,009	159,942

Revenue

Manufacturing revenue for 2019 Q4 increased by $224.1 million, or 38.9% compared to 2018 Q4. 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 selling prices in the Company's motor coach and transit businesses prior to the acquisition of ADL ("legacy manufacturing businesses").

Manufacturing revenue for Fiscal 2019 increased by $334.2 million, or 15.6% compared to Fiscal 2018. The increase is related to acquisition of ADL. Partially offsetting the increase is lower volumes of 7.4% in the Company's legacy manufacturing businesses.

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. A significant portion of the missed deliveries prior to 2019 Q4 were recovered during 2019 Q4 which contributed to the strong revenue for the quarter.

Revenue from aftermarket operations in 2019 Q4 increased by $31.7 million, or 37.0% compared to 2018 Q4. The acquisition of ADL contributed to increased revenue during 2019 Q4. Also contributing to increased revenue is increased sales volumes in the legacy aftermarket business (being the aftermarket business prior to the acquisition of ADL).

Revenue from aftermarket operations in Fiscal 2019 increased by $40.3 million, or 10.7% compared to Fiscal 2018. The acquisition of ADL contributed to revenue during Fiscal 2019. This is partially offset by lower sales volumes in the legacy aftermarket business due to competitive pressures 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 Fiscal 2019 compared to Fiscal 2018.

Cost of sales

(Unaudited, U.S. dollars in thousands)	2019 Q4	2019 Q4 (excluding IFRS 16)	2018 Q4	Fiscal 2019	Fiscal 2019 (excluding IFRS 16)	Fiscal 2018
Manufacturing						
Direct cost of sales	$ 602,508	$ 602,508	$ 423,229	$ 1,868,917	$ 1,868,917	$ 1,569,543
Depreciation and amortization	28,531	25,188	16,087	94,246	84,669	60,509
Other overhead	67,157	70,093	44,097	221,317	231,419	164,509
Manufacturing cost of sales	$ 698,196	$ 697,789	$ 483,413	$ 2,184,480	$ 2,185,005	$ 1,794,561
As percent of Manufacturing Sales	87.2%	87.2%	83.9%	88.2%	88.2%	83.8%
Aftermarket						
Direct cost of sales	$ 78,965	$ 78,965	$ 58,410	$ 285,151	$ 285,151	$ 262,965
Depreciation and amortization	2,603	1,956	1,931	10,323	7,760	7,287
Aftermarket cost of sales	$ 81,568	$ 80,921	$ 60,341	$ 295,474	$ 292,911	$ 270,252
As percent of Aftermarket Sales	69.6%	69.1%	70.6%	70.8%	70.2%	71.7%
Total Cost of Sales	$ 779,764	$ 778,710	$ 543,754	$ 2,479,954	$ 2,477,916	$ 2,064,813
As percent of Sales	85.0%	84.9%	82.1%	85.7%	85.6%	82.0%

The consolidated cost of sales, excluding the impact of IFRS 16, for 2019 Q4 increased by $235.0 million or 43.2% compared to 2018 Q4.

Cost of sales from Manufacturing operations in 2019 Q4, excluding the impact of IFRS 16, were $697.8 million (87.2% of manufacturing operations revenue) compared to $483.4 million (83.9% of Manufacturing operations revenue) in 2018 Q4, an increase of $214.4 million or 44.4%. Cost of sales increased as a percentage of revenue as a result of lower margins in the ADL business. 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 Fiscal 2019, excluding the impact of IFRS 16 were $2,184.5 million (88.2% of manufacturing operations revenue) compared to $1,794.6 million (83.8% of Manufacturing operations revenue) in Fiscal 2018, an increase of $390.4 million or 21.8%. Cost of sales increased as a percentage of revenue for the same reasons noted in the comparison of 2019 Q4 to 2018 Q4.

Fair value adjustments charged into the statement of net earnings and total comprehensive income within Manufacturing operations were $2.2 million for 2019 Q4 and $31.0 million Fiscal 2019. The adjustment relates to purchase accounting as a result of the ADL acquisition, where on the acquisition date the inventory is valued at the fair value, and as the inventory is sold, the write up is released into cost of sales as an expense.

Cost of sales from Aftermarket operations in 2019 Q4, excluding the impact of IFRS 16 were $80.9 million (69.1% of Aftermarket revenue) compared to $60.3 million (70.6% of Aftermarket revenue) in 2018 Q4, an increase of $20.6 million.

Cost of sales from Aftermarket operations in Fiscal 2019, excluding the impact of IFRS 16 were $292.9 million (70.2% of Aftermarket revenue) compared to $270.3 million (71.7% of Aftermarket revenue) in Fiscal 2018, an increase of $22.6 million. The difference is consistent with the higher revenues.

Fair value adjustments charged into the statement of net earnings and total comprehensive income within Aftermarket operations were $0.8 million for Fiscal 2019. The adjustment relates to purchase accounting as a result of the ADL acquisition, where on the acquisition date the inventory is valued at the fair value, and as the inventory is sold, the write up is released into cost of sales as an expense.

Gross Margins

(Unaudited, U.S. dollars in millions)	2019 Q4	2019 Q4 (excluding IFRS 16)	2018 Q4	Fiscal 2019	Fiscal 2019 (excluding IFRS 16)	Fiscal 2018
Manufacturing	102,378	102,785	93,107	291,541	291,016	347,307
Aftermarket	35,600	36,247	25,158	121,943	124,507	106,901
Total Gross Margins	$ 137,978	$ 139,032	$ 118,265	$ 413,484	$ 415,523	$ 454,208
As a percentage of sales						
Manufacturing	12.8%	12.8%	16.1%	11.8%	11.8%	16.2%
Aftermarket	30.4%	30.9%	29.4%	29.2%	29.8%	28.3%
	15.0%	15.1%	17.9%	14.3%	14.4%	18.0%

Manufacturing gross margins for 2019 Q4, excluding the impact of IFRS 16, of $102.8 million (12.8% of revenue), increased by $9.7 million, or 10.4% compared to $93.1 million (16.1% of revenue) for 2018 Q4. Manufacturing gross margin for Fiscal 2019, excluding the impact of IFRS 16, of $291.0 million (11.8% of revenue) decreased by $55.6 million, or 16.2% compared to $347.3 million (16.2% of revenue) for Fiscal 2018.

Included in manufacturing gross margin is a charge of $2.2 million for 2019 Q4 and $31.0 million for Fiscal 2019 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 $5.3 million for 2019 Q4 and $14.4 million for Fiscal 2019 related to the acquisition of ADL. This decreased gross margin as a percentage of revenue by 0.9% for 2019 Q4 and 1.8% for Fiscal 2019.

In addition to the unwind of the fair value adjustment, the decrease in gross margin as a percentage of revenue for both the 2019 Q4 and Fiscal 2019 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 KMG parts fabrication facility and higher remediation costs.

Gross margins from Aftermarket operations in 2019 Q4, excluding the impact of IFRS 16, of $36.2 million (30.9% of revenue) increased by $11.0 million, or 44.1% compared to 2018 Q4 gross margins of $25.2 million (29.4% of revenue). The increase as a percentage of revenue is primarily due to favourable sales mix.

Gross margins from Aftermarket operations in Fiscal 2019, excluding the impact of IFRS 16, of $124.5 million (29.8% of revenue) increased by $17.6 million, or 16.5% compared to gross margins of $106.9 million (28.3 % of revenue) in Fiscal 2018. 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 Fiscal 2019. This decreased gross margin as a percentage of revenue by 0.2% for Fiscal 2019.

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

(Unaudited, U.S. dollars in thousands)	2019 Q4	2019 Q4 (excluding IFRS 16)	2018 Q4	Fiscal 2019	Fiscal 2019 (excluding IFRS 16)	Fiscal 2018
Selling expenses	$ 7,052	$ 7,052	$ 4,808	$ 23,739	$ 23,739	$ 18,056
General and administrative expenses	62,055	63,043	50,030	205,270	209,321	186,285
Other costs	(528)	(528)	499	12,445	12,446	6,219
Total SG&A	$ 68,579	$ 69,567	$ 55,337	$ 241,454	$ 245,506	$ 210,560

The consolidated SG&A, excluding the impact of IFRS 16, for 2019 Q4 of $69.6 million (7.6% of consolidated revenue) increased by $14.3 million or 25.7% compared with $55.3 million (8.4% of consolidated revenue) in 2018 Q4. The increase is mostly related to the acquisition of ADL.

The consolidated SG&A, excluding the impact of IFRS 16, for Fiscal 2019 of $245.5 million (8.5% of consolidated revenue) increased by $34.9 million or 16.6% compared with $210.6 million (8.4% of consolidated revenue) in Fiscal 2018. Other costs from acquisition related expenses of $13.0 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 Q4, the Company recorded a realized foreign exchange gain of $0.6 million compared to a loss of $2.4 million in 2018 Q4. During Fiscal 2019, the Company recorded a realized foreign exchange gain of $1.0 million compared to a loss of $5.8 million in Fiscal 2018.

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 Q4, excluding IFRS 16 were $70.0 million (7.6% of consolidated revenue) compared to $60.6 million (9.1% of consolidated revenue) in 2018 Q4, an increase of $9.4 million or 15.6%.

Earnings from operations related to Manufacturing operations in 2019 Q4 were $56.5 million (7.1% of Manufacturing revenue) compared to $56.3 million (9.8% of Manufacturing revenue) in 2018 Q4, an increase of $0.2 million or 0.3%. Earnings from operations related to Manufacturing operations in Fiscal 2019 were $112.7 million (4.6% of Manufacturing revenue) compared to $203.3 million (9.5% of Manufacturing revenue) in

Fiscal 2018, a decrease of $90.6 million or 44.6%. 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 Q4 were $15.5 million (13.3% of Aftermarket revenue) compared to $15.4 million (18.0% of Aftermarket revenue), an increase of $0.1 million or 0.9%. Earnings from operations related to Aftermarket operations in Fiscal 2019 were $64.0 million (15.3% of Aftermarket revenue) compared to $66.3 million (17.6% of Aftermarket revenue), a decrease of $2.3 million or 3.5%. The decrease as a percentage of revenue is related to the fair value adjustments described 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 Q4	2018 Q4	Fiscal 2019	Fiscal 2018
Unrealized (gain) loss on forward foreign exchanges contracts	$ (1,475)	$ 2,342	$ (1,797)	$ 2,974
Unrealized (gain) loss on other long-term monetary assets/liabilities	(165)	(1,031)	1,857	(1,593)
	$ (1,640)	$ 1,311	$ 60	$ 1,381

At December 29, 2019, the Company had $216.4 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 $3.7 million (December 30, 2018: $1.5 million) is recorded on the audited consolidated statements of financial position as a current derivative financial instruments liability and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the consolidated statements of net earnings and total comprehensive income.

Earnings before interest and income taxes ("EBIT")

In 2019 Q4, the Company recorded EBIT of $71.5 million compared to EBIT of $61.4 million in 2018 Q4. In Fiscal 2019, the Company recorded EBIT of $173.1 million compared to EBIT of $238.3 million in Fiscal 2018. EBIT has been impacted by non-cash and non-recurring items as follows:

(Unaudited, U.S. dollars in thousands)	2019 Q4	2018 Q4	Fiscal 2019	Fiscal 2018
Non-cash and non-recurring charges:				
Costs associated with assessing strategic and corporate initiatives	$ (616)	$ —	$ 13,069	$ 137
Unrealized foreign exchange (gain) loss	(1,640)	1,311	60	1,381
Equity settled stock-based compensation	437	34	1,566	1,409
Loss (gain) on disposition of property, plant and equipment	52	(8)	(46)	267
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue	2,156	—	31,004	266
Fair value adjustment of total return swap	273	5,629	949	6,547
Past service costs	—	—	—	6,482
Recovery on currency transactions	—	—	(4,287)	—
Prior year sales tax provision	300	—	4,094	—
Amortization	31,135	18,017	104,570	67,796
Total non-cash and non-recurring charges:	$ 32,097	$ 24,983	$ 150,979	$ 84,285

Interest and finance costs

The interest and finance costs for 2019 Q4 of $11.3 million increased by $0.6 million when compared 2018 Q4.

The increase is primarily due increased interest on long-term debt of $5.8 million. Increased interest is the result of higher average Credit Facility 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. Interest related to leases capitalized under IFRS 16 and higher other banking charges also contributed. This is offset by a $4.5 million gain on the interest rate swap in 2019 Q4.

The interest and finance costs for Fiscal 2019 of $73.4 million increased by $45.7 million when compared to Fiscal 2018. The increase is primarily due to a $22.0 million loss on the interest rate swap in Fiscal 2019 compared to a loss of $0.8 million in Fiscal 2018. Higher average Credit Facility draws contributed to the increase in interest on long-term debt of $18.6 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 Q4 of $60.2 million increased by $9.5 million compared to EBT of $50.7 million in 2018 Q4. EBT for Fiscal 2019 of $99.7 million decreased by $111.0 million compared to EBT of $210.7 million in Fiscal 2018. 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 Q4 was $26.1 million compared to $7.9 million in 2018 Q4. The ETR for 2019 Q4 was 43.4% and the ETR for 2018 Q4 was 15.6%. The increase in the overall income tax expense and high ETR, is primarily due to the occurrence of base erosion and anti-abuse tax (“BEAT”), and a revision of prior year tax estimates.

The income tax expense for Fiscal 2019 was $42.0 million compared to $50.7 million in Fiscal 2018. The ETR for Fiscal 2019 was 42.1% and the ETR for Fiscal 2018 was 24.1%. The reduction in the overall income tax expense is due to lower earnings before taxes, partially offset by the occurrence of BEAT, and a revision of prior year tax estimates. The high ETR is predominantly due to the impact of low earnings before tax due to adjustments relating to the ADL acquisition accounting discussed in the gross margin section, and a revision to prior year’s tax estimates, adjusting for these two items, the ETR would be 30.3%.

Net earnings

The Company reported net earnings of $34.1 million in 2019 Q4, a decrease of 20.3% compared to net earnings of $42.8 million in 2018 Q4. The Company reported net earnings of $57.7 million in Fiscal 2019, a decrease of 63.9% compared to net earnings of $160.0 million in Fiscal 2018. The decrease in net earnings is a result of ADL acquisition costs, adjustments for purchase accounting, interest on long-term debt, and fair value adjustments on foreign exchange and interest contracts.

Net earnings (Unaudited U.S. dollars in millions)	**2019 Q4**	**2019 Q4 (excluding IFRS 16)**	**2018 Q4**	**Fiscal 2019**	**Fiscal 2019 (excluding IFRS 16)**	**Fiscal 2018**
Earnings from operations	$ 70.0	$ 70.0	$ 60.6	$ 173.1	$ 171.1	$ 237.9
Non-cash gain (loss)	1.5	1.5	0.8	—	—	0.5
Interest expense	(11.3)	(9.6)	(10.7)	(73.4)	(67.4)	(27.7)
Income tax expense	(26.1)	(26.1)	(7.9)	(42.0)	(41.7)	(50.7)
Net earnings	$ 34.1	$ 35.8	$ 42.8	$ 57.7	$ 62.0	$ 160.0
Net earnings per Share (basic)	$ 0.55	$ 0.57	$ 0.69	$ 0.93	$ 1.00	$ 2.56
Net earnings per Share (fully diluted)	$ 0.55	$ 0.57	$ 0.68	$ 0.93	$ 1.00	$ 2.55

The Company’s net earnings per Share in 2019 Q4 and Fiscal 2019, excluding the impact of IFRS 16, of $0.57 and $1.00, respectively decreased from net earnings per Share of $0.69 and $2.56 generated in 2018 Q4 and Fiscal 2018. Net earnings were lower in 2019 Q4 for the reasons discussed throughout the Results of Operation section in this MD&A, which decreased earnings per Share in 2019 Q4. Partially offsetting the impact of these decreases in net earnings per Share were lower weighted average common Shares.

Cash Flow

The cash flows of the Company are summarized as follows:

(Unaudited Quarterly Results, U.S. dollars in thousands)	**2019 Q4**	**2018 Q4**	**Fiscal 2019**	**Fiscal 2018**
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	$ 101,054	$ 87,823	$ 277,775	$ 305,643
Interest paid	(15,447)	(6,338)	(47,676)	(23,073)
Income taxes paid	(7,228)	(12,154)	(40,167)	(73,082)
Net cash earnings	78,379	69,331	189,932	209,488
Cash flow used in changes in working capital	70,891	(1,991)	(91,324)	(34,344)
Cash flow generated from operating activities	149,270	67,340	98,608	175,144
Cash flow from (used in) financing activities	(145,175)	(37,700)	298,011	(83,774)
Cash flow used in investing activities	(6,979)	(20,166)	(379,289)	(70,806)

Cash flows from operating activities

The 2019 Q4 net operating cash inflow of $149.3 million is mostly comprised of $101.1 million of net cash earnings and $70.9 million of cash inflows related to changes in working capital. The 2018 Q4 net operating cash inflow of $67.3 million is comprised of $69.3 million of net cash earnings partially offset by cash used for working capital of $2.0 million.

The Fiscal 2019 net operating cash inflow of $98.6 million is comprised of $91.3 million outflows related to changes in working capital partially offset by net cash earnings of $189.9 million. Management anticipates that working capital will continue to decline during the coming year as it primarily relates to deferred deliveries and temporary production issues. The Fiscal 2018 net operating cash inflow of $175.1 million is comprised of $209.5 million of net cash earnings and a decrease in cash used for working capital of $34.3 million.

Cash flow from financing activities

The cash outflow of $145.2 million during 2019 Q4 mostly related to the repayment of debt and dividends paid to shareholders. The Fiscal 2019 inflow of $298.0 million 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 Q4	2018 Q4	Fiscal 2019	Fiscal 2018
Acquisition of intangible assets	$ (11)	$ (32)	(38)	$ (50)
Proceeds from disposition of property, plant and equipment	—	10	174	235
Net cash used in acquisitions	—	—	(327,360)	—
Long-term restricted deposit	—	—	(14,490)	—
Acquisition of property, plant and equipment	(6,968)	(20,144)	(37,575)	(70,991)
Cash from investing activities	$ (6,979)	$ (20,166)	$ (379,289)	$ (70,806)

2019 Q4 investing activities have decreased outflows compared to 2018 Q4 primarily due to lower acquisition of property, plant and equipment. Fiscal 2019 investing activities have greater outflows than Fiscal 2018 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 $15.4 million at December 29, 2019 (2018: $6.6 million asset) was recorded on the audited 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 audited consolidated statements of net earnings and total comprehensive income.

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

	December 29, 2019	December 30, 2018
Current, including holdbacks	$ 482,476	$ 358,729
Past due amounts but not impaired		
1 – 60 days	37,413	24,153
Greater than 60 days	6,800	4,830
Less: allowance for doubtful accounts	(284)	(226)
Total accounts receivables, net	$ 526,405	$ 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 accrued benefit liabilities as at December 29, 2019:

U.S. dollars in thousands	**Total**	**2020**	**2021**	**2022**	**2023**	**2024**	**Post 2024**
Leases	211,101	23,271	21,886	19,666	16,539	12,489	117,250
Accrued benefit liability	3,936	3,936	—	—	—	—	—
	$ 215,037	$ 27,207	$ 21,886	$ 19,666	$ 16,539	$ 12,489	$ 117,250

As at December 29, 2019, outstanding surety bonds guaranteed by the Company amounted to $384.5 million, representing a decrease compared to $394.4 million at December 30, 2018. The estimated maturity dates of the surety bonds outstanding at December 29, 2019 range from January 2020 to December 2026. Management believes that adequate facilities exist to meet projected surety requirements.

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

Under the Credit Facility, the Company had established a letter of credit sub-facility of $100.0 million. As at December 29, 2019, letters of credit amounting to $12.8 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 December 29, 2019, letters of credit totaling $23.8 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 December 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	(483,030)	—	(7,326)	—	March 26, 2021	C$10.20	C$1.55
December 30, 2013	612,050	(573,668)	(9,631)	(28,751)	—	December 30, 2021	C$10.57	C$1.44
December 28, 2014	499,984	(243,587)	(11,368)	(245,029)	—	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	152,883	—	(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
	2,418,260	(1,321,427)	(27,927)	(540,672)	528,234		C$30.77	

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	(158,031)	C$12.77	(185,860)	C$11.91
Balance at end of period	1,068,906	C$30.77	946,306	C$27.02

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 Q4. Of these Director RSUs issued, approximately $94 thousand were exercised and exchanged for 4,434 Shares.

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 Normal Course Issuer Bid ("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 - leases ("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 include 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 as December 29, 2019, the Company was in compliance with the ratios.

	December 29, 2019	December 30, 2018
Total Leverage Ratio (must be less than 4.25 for one year following a material acquisition)	3.24	2.09
Interest Coverage Ratio (must be greater than 3.00)	7.73	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 Fiscal 2019 Free Cash Flow was C$211.4 million compared to declared dividends of C$105.5 million during this period. For Fiscal 2018 Free Cash Flow was C$210.5 million compared to declared dividends of C$90.3 million. This resulted in a payout ratio of 49.9% in 2019 compared to 42.9% in 2018.

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.

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, 2019. 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 subsequent to 2019 Q1.

Total Capital Distributions to Shareholders (U.S. dollars in millions)	**2019 Q4**	**2018 Q4**	**Fiscal 2019**	**Fiscal 2018**
Dividends paid	$ 20.0	$ 18.1	$ 76.4	$ 68.2
NCIB Share repurchase	—	36.9	5.7	66.5
Total	$ 20.0	$ 55.0	$ 82.1	$ 134.7

Critical accounting estimates and judgments

The Company's critical accounting estimates and judgments can be found within note 2 to the 2019 Annual Financial Statements.

New and amended standards adopted by the Company

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 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 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.

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 29, 2019 in accordance with the criteria established in COSO 2013, and concluded that the Company's ICFR are effective.

The Company has limited its design of ICFR to exclude controls, policies and procedures of ADL, as they were acquired not more than 365 days before the end of the financial period to which this MD&A relates.

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 29, 2019 were effective.

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

As permitted by securities legislation, for the period ended December 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 December 29, 2019 and as at December 29, 2019, certain financial results and financial position of ADL are:

(Unaudited, U.S. dollars in thousands)		Fiscal 2019
Revenue	$	449,101
Net loss		(43,026)
Current assets		380,226
Non-current assets		403,953
Current liabilities		269,271
Non-current liabilities		310,347

Net loss of ADL is impacted by $31.0 million of charges related to the unwind of fair value adjustments of acquired assets and $14.4 million of intangible amortization related to the purchase price accounting.

Appendix A - Acquisition of ADL

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 Fiscal 2018 information to provide comparative including ADL's results.

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.

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

Consolidated Revenue (Unaudited, U.S. dollars in millions)	**2019 Q4**	**2018 Q4** Proforma	**2018 Q4**	**Fiscal 2019**	**Fiscal 2019** Proforma	**Fiscal 2018** Proforma	**Fiscal 2018**
Deliveries (EUs)	2021	1938	1313	5784	6575	7218	4781
Manufacturing	$ 800.6	$ 749.6	576.5	2,476.0	$ 2,715.9	$ 2,838.7	2,141.9
Aftermarket	117.2	108.8	85.5	417.4	456.0	472.6	377.2
Total Revenue	$ 917.8	$ 858.4	$ 662.0	$ 2,893.4	$ 3,171.9	$ 3,311.3	$ 2,519.1
Reconciliation of earnings before interest and income tax expense to Adjusted EBITDA							
Adjusted historical earnings before interest and income tax expense	$ 71.5	$ 70.9	$ 61.4	173.1	177.9	$ 268.6	$ 238.3
Depreciation and amortization	31.1	19.6	18.0	104.6	108.9	$ 74.5	67.8
Acquisition related costs	1.5	—	—	44.1	44.1	(1.7)	(1.7)
Gain on sale of assets	0.1	—	—	—	—	$ 0.3	0.3
Other adjustments [1]	(0.5)	$ 0.5	$ 0.5	0.4	0.4	$ 10.7	$ 10.7
Adjusted EBITDA	$ 103.9	$ 91.0	$ 79.9	$ 322.2	$ 331.3	$ 352.4	$ 315.4

[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.

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.

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	34,608	151,788	192,209	29,367	221,576
Accounts receivable	66,167	5,283	71,450	90,477		90,477
Prepaid expenses	8,243	(4,068)	4,175	5,287		5,287
Derivative financial instruments	3,972	(4,248)	(276)	(349)		(349)
Property, plant and equipment	18,256	3,563	21,819	27,629	16,020	43,649
Right-of-use assets	—	13,581	13,581	17,198		17,198
Accounts payable and accrued liabilities	(151,309)	14,989	(136,320)	(172,622)		(172,622)
Income taxes payable	(1,286)		(1,286)	(1,628)		(1,628)
Deferred revenues	(1,565)	(61,634)	(63,199)	(80,029)		(80,029)
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)	3,503	2,292	2,902	(44,636)	(41,734)
Net tangible assets acquired	7,399	(8,364)	(965)	(1,221)	751	(470)
Trade names					43,181	43,181
Patent and licenses					22,287	22,287
Customer relationships					123,338	123,338
Backlog of sales orders					14,562	14,562
Identifiable intangible assets acquired					203,368	203,368
Goodwill acquired					124,462	124,462

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 December 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, these items include valuation of provisions, and accrued liabilities.

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.

Appendix B - 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 December 29, 2019, 62,493,880 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 (including the effect on demand for the Company's products and services as a result of the impact of the COVID-19 virus on customers); 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; changes resulting from a hard exit of United Kingdom (UK) from the European Union (commonly referred to as "Brexit")and/or changes to the US Federal Funding mechanism (FAST Act) or Trade Policies may result in supply chain disruption and a potential downturn in the UK and US economies that may suppress demand; 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 (including the risk of supply disruption due to suppliers affected by the COVID-19 virus); 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, ASIAPACIFIC, 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 and other pension costs, non-recurring restructuring costs, 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, and release of provision related to purchase accounting.

"Free Cash Flow" means net cash generated by operating activities adjusted for changes in non-cash working capital items, interest paid, interest expense, income taxes paid, current income tax expense, principal portion of finance lease payments, cash capital expenditures, proceeds from disposition of property, plant and equipment, costs associated with assessing strategic and corporate initiatives, 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, non-recurring restructuring costs, 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, 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, past service costs and other pension costs, gain on release of provision related to purchase accounting, recovery on currency transactions, prior year sales tax provision, and non-recurring restructuring costs .

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 Q4 and Fiscal 2019 information, excluding the impact of IFRS 16 in areas where the impact is significant. See "Critical Accounting Estimates and Judgments" in Note 2 to the Consolidated Financial Statements .

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.

Appendix C - 2019 Fourth Quarter Order Activity

Demand for Transit Buses and Motor Coaches

The Company's "Bid Universe" metric estimates active public competitions in Canada and the United States and attempts to provide an overall indication of anticipated heavy-duty transit bus and motor coach public sector market demand. It is a point-in-time snapshot of: (i) EUs in active competitions, defined as all requests for proposals received by the Company and in process of review plus bids submitted by the Company and awaiting customer action, and (ii) management's forecast, based on data provided by operators, of expected EUs to be placed out for competition over the next five years.

Management was encouraged by fourth quarter growth in the Company's Bid Universe. At the end of 2019 Q4, the total Bid Universe was 27,648 EUs, an increase of 18.0% from 2018 Q4 and 0.6% from 2019 Q3, while the active Bid Universe increased by 71.9% from 2018 Q4 and decreased by 4.3% from 2019 Q3. 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 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
2019 Q4	1,760	2,934	4,694	22,954	27,648

(1) Management's estimate of anticipated 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 for the UK and European or Asia Pacific markets similar to New Flyer and MCI's North American Bid Universe. 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 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, 2018 and 2019.

Order activity

New orders (firm and options) during 2019 Q4 totaled 1,159 EUs. The new firm and option orders awarded to the Company for 2019 Q4 last twelve months ("LTM") were 3,577 EUs. The Company was also successful at converting 813 EUs of options during 2019 Q4 to firm orders, which contributed to the 1,518 EUs of options converted to firm orders during 2019 Q4 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 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
2019 Q4	**1,159**	**3,577**	**813**	**1,518**

Options

In 2019 Q4, 159 option EUs expired, compared to 71 option EUs that expired during 2019 Q3.

A significant number of public transit contracts in the U.S. and Canada have a term of five years. In addition, some contracts in the UK and APAC also have multi-year terms. The table below shows the number of option EUs that have either expired or have been exercised annually over the past five years, as well as the current backlog of options that will expire each year if not exercised.

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total
A) Options Expired (EUs)	965	504	550	331	741	512						3,603
B) Options Exercised (EUs)	1,149	1,339	2,064	1,404	1,795	1,518						9,269
C) Current Options by year of expiry (EUs)							1,629	1,526	2,059	639	665	6,518
D) Conversion rate % = B / (A+B)	**54%**	**73%**	**79%**	**81%**	**71%**	**75%**						

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

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 Q4 LTM Book-to-Bill ratio (defined as new firm orders and exercised options divided by new deliveries) was 85%, a decrease of 4% from 88% in 2018 Q4 LTM largely driven by the large number of deliveries made during 2019 Q4.

In addition, 664 EUs of new firm and option orders were pending from customers at the end of 2019 Q4, 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 optionsgre 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 ZEBs, 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 Q4			2019 Q3			2018 Q4		
	Firm Orders	**Options**	**Total**	**Firm Orders**	**Options**	**Total**	**Firm Orders**	**Options**	**Total**
Beginning of period	4,313	7,281	11,594	3,306	6,691	9,997	3,423	7,687	11,110
Acquired Backlog (ADL)[1]	—	—	—	1,226	805	2,031	—	—	—
New orders	950	209	1,159	950	85	1,035	785	73	858
Options exercised	813	(813)	—	229	(229)	0	575	(575)	0
Shipments[2]	(1,844)	—	(1,844)	(1,392)	—	(1,392)	(1,126)	—	(1,126)
Cancelled/expired	(8)	(159)	(167)	(6)	(71)	(77)	(8)	(1)	(9)
End of period	**4,224**	**6,518**	**10,742**	**4,313**	**7,281**	**11,594**	**3,649**	**7,184**	**10,833**
Consisting of:									
Heavy-duty transit buses	3,236	5,722	8,958	3,295	6,480	9,775	3,024	6,177	9,201
Motor coaches	615	796	1,411	664	801	1,465	468	1,007	1,475
Cutaway and medium-duty buses	373	—	373	354	—	354	157	—	157
Total Backlog	**4,224**	**6,518**	**10,742**	**4,313**	**7,281**	**11,594**	**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 Q4, the Company's total backlog (firm and options) of 10,742 EUs (valued at $5.2 billion) has decreased compared to 11,594 EUs (valued at $5.5 billion) at the end of 2019 Q3. The decrease was driven by record deliveries in the quarter of 1,844 EUs. The summary of the values is provided below.

	2019 Q4		2019 Q3		2018 Q4	
		Equivalent Units		**Equivalent Units**		**Equivalent Units**
Total firm orders	$ 1,928.8	4,224	$ 1,877.3	4,313	$ 1,937.5	3,649
Total options	3,245.1	6,518	3,598.6	7,281	3,414.1	7,184
Total backlog	**$ 5,177.9**	**10,742**	**$ 5,475.9**	**11,594**	**$ 5,351.6**	**10,833**

Consolidated Financial Statements of

NFI GROUP INC.

December 29, 2019

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Independent Auditor's Report

To the Shareholders of NFI Group Inc.

Opinion

We have audited the consolidated financial statements of NFI Group Inc. (the "Company"), which comprise the consolidated statements of financial position at December 29, 2019 and December 30, 2018, and the consolidated statements of net earnings and total comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 29, 2019 and December 30, 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Other Information

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

Management's Discussion and Analysis

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

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

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

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Michael Boucher.

Deloitte LLP

Chartered Professional Accountants
Winnipeg, Manitoba
March 11, 2020

NFI GROUP INC.

CONSOLIDATED STATEMENTS OF NET EARNINGS AND TOTAL COMPREHENSIVE INCOME

52 Weeks ended December 29, 2019 ("Fiscal 2019") and 52 Weeks ended December 30, 2018 ("Fiscal 2018")

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

	Fiscal 2019	Fiscal 2018
Revenue (note 22)	$ 2,893,436	$ 2,519,021
Cost of sales (note 4)	2,479,954	2,064,813
Gross profit	413,482	454,208
Sales, general and administration costs and other operating expenses	241,454	210,560
Foreign exchange loss (gain)	(1,036)	5,793
Earnings from operations	173,064	237,855
Gain on release of provision	—	2,138
Gain (loss) on disposition of property, plant and equipment	46	(267)
Unrealized foreign exchange loss on non-current monetary items	(60)	(1,381)
Earnings before interest and income taxes	173,050	238,345
Interest and finance costs		
Interest on long-term debt and convertible debentures	39,127	20,518
Accretion in carrying value of long-term debt and convertible debentures (note 16)	829	3,316
Interest expense on lease liability	7,211	—
Other interest and bank charges	4,208	3,028
Fair market value loss on interest rate swap	21,980	830
	73,355	27,692
Earnings before income tax expense	99,695	210,653
Income tax expense (note 15)		
Current income taxes	61,339	56,263
Deferred income taxes recovered	(19,342)	(5,552)
	41,997	50,711
Net earnings for the year	$ 57,698	$ 159,942
Other comprehensive income (loss)		
Actuarial income (loss) on defined benefit pension plan - this item will not be reclassified subsequently to profit or loss	(4,390)	3,170
Unrealized foreign exchange gains on translation of foreign operations	11,865	—
Total comprehensive income for the year	$ 65,173	163,112
Net earnings per share (basic) (note 18)	$ 0.93	$ 2.56
Net earnings per share (diluted) (note 18)	$ 0.93	$ 2.55

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

NFI GROUP INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at December 29, 2019
(in thousands of U.S. dollars)

	December 29, 2019	December 30, 2018
Assets		
Current		
Cash	$ 28,233	$ 10,820
Accounts receivable (note 3, 21 c)	531,736	387,486
Income tax receivable	17,375	34,115
Inventories (note 4)	672,243	424,685
Prepaid expenses and deposits	10,094	10,434
	1,259,681	867,540
Property, plant and equipment (note 5, 22)	268,748	247,943
Right-of-use asset (note 6)	153,323	—
Derivative financial instruments (note 21 b,c)	—	6,592
Goodwill and intangible assets (note 7)	1,250,518	951,010
Other long term asset (note 8)	19,612	1,052
	$ 2,951,882	$ 2,074,137
Liabilities		
Current		
Accounts payable and accrued liabilities	581,612	366,517
Derivative financial instruments (note 21 b,c)	4,651	1,542
Current portion of long-term liabilities (note 9)	144,524	80,310
	730,787	448,369
Accrued benefit liability (note 10)	8,037	5,265
Obligations under leases (note 6)	143,999	19,087
Deferred compensation obligation (note 11)	2,790	4,979
Deferred revenue (note 13)	13,354	10,443
Other long-term liabilities	—	1,008
Provisions (note 14)	62,180	64,946
Deferred tax liabilities (note 15)	105,023	83,121
Derivative financial instruments	15,388	—
Long-term debt (note 16)	1,053,126	639,432
	$ 2,134,684	$ 1,276,650
Commitments and contingencies (note 24)		
Shareholders' equity		
Share capital (note 17)	680,962	654,307
Stock option and restricted share unit reserve (note 12)	6,828	5,796
Accumulated other comprehensive income (loss)	769	(6,706)
Treasury shares (note 17)	—	(8,835)
Retained earnings	128,639	152,925
	$ 817,198	$ 797,487
	$ 2,951,882	$ 2,074,137

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

Approved and authorized by the board of directors on March 11, 2020.

"Hon. Brian V. Tobin, Director"

"Phyllis Cochran, Director"

NFI GROUP INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended December 29, 2019

(in thousands of U.S. dollars)

	Share Capital	Stock Option and Restricted Share Unit Reserve	Accumulated Other Comprehensive Income (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	—	—	—	—	159,942	159,942
Other comprehensive loss	—	—	3,170	—	—	3,170
Dividends declared on common shares	—	—	—	—	(68,646)	(68,646)
Repurchase and cancellation of common shares	(13,973)				(32,234)	(46,207)
Change in share purchase commitment				(8,835)	(13,516)	(22,351)
Share-based compensation, net of deferred income taxes	—	2,061	—	—	—	2,061
Shares issued	2,678	(989)	—	—	—	1,689
Balance, December 30, 2018	**$ 654,307**	**$ 5,796**	**$ (6,706)**	**$ (8,835)**	**$ 152,925**	**$ 797,487**
Net earnings	—	—	—	—	$ 57,698	57,698
Other comprehensive income	—	—	7,475	—	—	7,475
Dividends declared on common shares	—	—	—	—	(79,950)	(79,950)
Repurchase and cancellation of common shares	(10,451)	—	—	—	(2,034)	(12,485)
Change in share purchase commitment	—	—	—	8,835	—	8,835
Share-based compensation, net of deferred income taxes	—	1,515	—	—	—	1,515
Shares issued	37,106	(483)	—	—	—	36,623
Balance, December 29, 2019	**$ 680,962**	**$ 6,828**	**$ 769**	**$ —**	**$ 128,639**	**$ 817,198**

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

NFI GROUP INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the year ended December 29, 2019
(in thousands of U.S. dollars)

	Fiscal 2019	Fiscal 2018
Operating activities		
Net earnings for the period	$ 57,698	$ 159,942
Income tax expense	41,997	50,711
Depreciation of plant and equipment	61,985	32,840
Amortization of intangible assets	42,585	34,956
Share-based compensation	1,566	1,409
Interest and finance costs recognized in profit or loss	73,355	27,692
Fair value adjustment for total return swap	949	6,547
Unrealized foreign exchange loss on non-current monetary items	60	1,381
Foreign exchange gain on cash held in foreign currency	(83)	(194)
Loss (gain) on disposition of property, plant and equipment	(46)	267
Defined benefit expense	5,849	12,333
Defined benefit funding	(8,140)	(22,241)
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	277,775	305,643
Changes in non-cash working capital items (note 19)	(91,324)	(34,344)
Cash generated from operating activities before interest and income taxes paid	186,451	271,299
Interest paid	(47,676)	(23,073)
Income taxes paid	(40,167)	(73,082)
Net cash generated from operating activities	98,608	175,144
Financing activities		
Debt issue costs	(1,636)	(2,246)
Repayment of obligations under lease	(12,456)	(5,125)
Proceeds from long-term debt	357,516	57,600
Share issuance	36,690	1,689
Repayment of other long-term liabilities	—	(1,000)
Repurchase of shares	(5,682)	(66,522)
Dividends paid	(76,421)	(68,170)
Net cash generated (used) in financing activities	298,011	(83,774)
Investing activities		
Acquisition of intangible assets	(38)	(50)
Proceeds from disposition of property, plant and equipment	174	235
Investment in long-term restricted deposits	(14,490)	—
Net cash used in acquisitions (note 1.1)	(327,360)	—
Acquisition of property, plant and equipment	(37,575)	(70,991)
Net cash used in investing activities	(379,289)	(70,806)
Effect of foreign exchange rate on cash	83	194
Increase in cash	17,413	20,758
Cash (bank indebtedness) — beginning of period	10,820	(9,938)
Cash — end of period	$ 28,233	$ 10,820

The accompanying notes are an integral part of the 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 audited consolidated financial statements (the "Statements") were approved by the Company's board of directors (the "Board") on March 11, 2020.

1.1 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.

	Initial 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	(2,721)	174,979	221,576
Accounts receivable	72,195	(745)	71,450	90,477
Prepaid expenses and deposits	8,884	(4,709)	4,175	5,287
Derivative financial instruments	(276)	—	(276)	(349)
Property, plant and equipment	28,038	6,432	34,470	43,649
Right-of-use assets	13,581	—	13,581	17,198
Accounts payable and accrued liabilities	(139,264)	2,944	(136,320)	(172,622)
Income tax payable	(1,286)	—	(1,286)	(1,628)
Deferred revenue	(59,943)	(3,256)	(63,199)	(80,029)
Obligations under leases	(14,118)	—	(14,118)	(17,878)
Long-term debt	(45,000)	—	(45,000)	(56,984)
Provisions	(5,871)	—	(5,871)	(7,434)
Deferred tax liabilities	(6,056)	(26,901)	(32,957)	(41,734)
Net tangible assets acquired	28,584	(28,956)	(372)	(471)
Trade Names	—	34,100	34,100	43,181
Patent and Licenses	—	17,600	17,600	22,287
Customer relationships	—	97,400	97,400	123,338
Backlog of sales orders	—	11,500	11,500	14,562
Identifiable intangible assets acquired	—	160,600	160,600	203,368
Goodwill acquired			98,288	124,462

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 December 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, these items include valuation of provisions, deferred revenue and accrued liabilities.

During the 214 days between the Acquisition Date and December 29, 2019, ADL produced revenues of approximately $449.0 million and net loss of $43.0 million, which have been recorded in the audited consolidated statements of net earnings and total comprehensive income for 2019. If ADL had been acquired on December 31, 2018 the incremental consolidated pro-forma revenue and income for the 52-week period ending December 29, 2019 would have been as follows:

	Results as stated	Incremental	Pro-forma results
Revenue	$ 2,893,436	$ 278,464	$ 3,171,900
Net earnings	57,698	22,934	80,632

Acquisition costs of $13.0 million are recorded in the consolidated statements of net earnings under sales, general and administration costs, related to the acquisition of ADL.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

2.2 Principles of consolidation

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

Subsidiaries

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

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

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

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

Inter-company transactions between subsidiaries are eliminated on consolidation.

2.3 New and amended standards adopted by the Company

IFRS 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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Reportable Segments

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

2.5 Foreign currency

The 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. References to "$" are to U.S. dollars, references to "C$" are to Canadian dollars, references to "£" are to British pounds sterling. 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.

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

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

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

2.6 Revenue recognition

Manufacturing Operations

Persuasive evidence of an arrangement exists in the form of a written contract. A process is in place that initiates a pre-shipment acceptance by the customer at the Company's plant. This acceptance prior to shipment mitigates the likelihood of customer's dissatisfaction with the final product upon delivery to the customer. Revenue is recorded when the buses or coaches are delivered or shipped. The customer does not have a legal right to return the delivered products after the acceptance period, or deviate from the agreed upon price. The Company's contract clearly identifies a fixed and determinable price.

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

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

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

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

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

Aftermarket Operations

Persuasive evidence of an arrangement exists in the form of an authorized sales order. The customer is invoiced, and revenue is recorded at the time the part is delivered using a commercial shipper. The price list for parts clearly identifies a fixed and determinable price,

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

while also describing that the Company has no legal obligation to accept the return of goods other than on defective and/or warrantable parts product. Aftermarket parts revenue does not contain any revenue related to the bus or coach warranty.

2.7 Employee benefits

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

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

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

2.8 Share-based compensation plans

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

For the cash-settled plans (note 11), the expense is determined based on the fair value of the liability at the end of the reporting period until the awards are settled. Certain share-based compensation plans include non-market performance conditions. The Company`s accounting policy is to recognize the impact of non-market performance conditions by adjusting the number of awards that are expected to vest. At the end of each reporting period, the Company re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions on compensation expense (note 22) in the consolidated statements of net earnings and comprehensive income.

For the equity-settled plans (note 12), share-based payments to senior management are measured at the fair value of the equity instruments at the grant date. The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period in which the options vest. The offset to the recorded cost is the stock option reserve. Consideration received on the exercise of stock options is recorded as share capital and the related stock option reserve is transferred to share capital. Upon expiry, the recorded value is transferred to retained earnings. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the consolidated statements of net earnings and comprehensive income such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the stock option reserve. Where the terms and conditions of options are modified, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statements of net earnings and comprehensive income.

2.9 Cash

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

2.10 Accounts receivables

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

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

2.11 Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

2.12 Property, plant and equipment

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

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

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

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

2.13 Intangible assets

Identifiable intangible assets are initially recorded at fair value. Based on management's forecasts and business plans and the going concern of the Company, the trade names intangible asset (note 7) has been deemed to have an indefinite life, except for the "NABI Parts" tradename which is amortized over its useful life of 12 years. For purposes of impairment testing, the fair value of trade names is determined using an income approach.

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

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

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

2.14 Goodwill

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

2.15 Impairment of non-financial assets

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Provisions

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

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

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

2.17 Long-term debt

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

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

2.18 Financial instruments

Financial assets

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

Financial assets at fair value through profit or loss

Classification

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

Recognition and measurement

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

Financial assets carried at amortized cost

Classification

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recognition and measurement

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

Financial liabilities carried at amortized cost

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

Derivative instruments

Derivatives are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at their fair value. The Company's derivative instruments, while providing effective economic hedges, are not designated as hedges for accounting purposes. Changes in the fair value of any derivatives that are not designated as hedges for accounting purposes are recognized within "Fair market value gain (loss) on interest rate swap" or "unrealized foreign exchange (loss) gain on non-current monetary items" in the consolidated statements of net earnings and comprehensive income consistent with the underlying nature and purpose of the derivative instruments.

2.19 Taxation

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

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

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

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

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

2.20 Investment tax credits

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

2.21 Vendor Rebates

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Critical accounting estimates and judgments

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

Critical accounting estimates and assumptions

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

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

Intangible assets and goodwill

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

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

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

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

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

Accrued benefit liability

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

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

Income Taxes

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provision for Warranty Costs

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

Critical judgments in applying accounting policies

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

Revenue recognition

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

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

Functional currency

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

Goodwill

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

3. ACCOUNTS RECEIVABLE

	December 29, 2019	December 30, 2018
Trade, net of allowance for doubtful accounts	$ 471,552	$ 358,441
Other	60,184	29,045
	$ 531,736	$ 387,486

4. INVENTORIES

	December 29, 2019	December 30, 2018
Raw materials	$ 300,447	$ 213,117
Work in process	263,343	150,654
Finished goods	108,453	60,914
	$ 672,243	$ 424,685

	Fiscal 2019	Fiscal 2018
Cost of inventories recognized as expense and included in cost of sales	$ 2,452,170	$ 2,015,272
Write-down of inventory to net realizable value in cost of sales	4,538	4,407
Reversals of a previous write-down in inventory	471	2,545

5. PROPERTY, PLANT AND EQUIPMENT

	Land, building and building improvements	Machinery and equipment	Computer hardware and software	Office equipment	Buses and coaches	Revenue Producing Assets	Total
Cost	$ 83,149	$ 143,561	$ 45,877	$ 5,619	$ 22,093	$ 13,931	$ 314,230
Accumulated depreciation	9,010	75,108	28,349	2,920	9,960	2,010	127,357
December 31, 2017 net book value	74,139	68,453	17,528	2,699	12,133	11,921	186,873
Additions (owned and leased)	19,369	50,024	8,191	2,006	470	9,097	89,157
Transfers from inventory	—	—	—	—	3,857	1,588	5,445
Disposals	(300)	(336)	(50)	(6)	—	—	(692)
Depreciation charge	(2,881)	(17,568)	(5,321)	(655)	(2,744)	(3,671)	(32,840)
December 30, 2018 net book value	90,327	100,573	20,348	4,044	13,716	18,935	247,943
Transition to IFRS 16 (note 2.3)	(3,013)	(22,734)	(1,572)	—	—	—	(27,319)
Adjusted December 31, 2018 net book value	87,314	77,839	18,776	4,044	13,716	18,935	220,624
Assumed as a result of business acquisitions	15,490	19,166	2,587	—	6,405	—	43,648
Additions	4,151	18,792	6,728	254	4,759	2,892	37,576
Transfer from inventory	—	—	—	—	6,646	3,931	10,577
Disposals	(27)	(117)	(33)	(44)	(159)	—	(380)
Depreciation charge	(3,387)	(21,369)	(5,797)	(746)	(7,252)	(6,119)	(44,670)
Cumulative translation adjustment	500	558	86	—	229	—	1,373
December 29, 2019 net book value	$ 104,041	$ 94,869	$ 22,347	$ 3,508	$ 24,344	$ 19,639	$ 268,748

	Land, building and building improvements	Machinery and equipment	Computer hardware and software	Office equipment	Demo buses and coaches	Buses and coaches available for lease	Total
Recorded as:							
Cost	$ 102,202	$ 192,983	$ 54,002	$ 7,615	$ 26,421	$ 24,615	$407,838
Accumulated depreciation	11,875	92,410	33,654	3,571	12,705	5,680	159,895
December 30, 2018 net book value	$ 90,327	$ 100,573	$ 20,348	$ 4,044	$ 13,716	$ 18,935	$247,943
Transition to IFRS 16 (note 2.3)	(3,013)	(22,734)	(1,572)	—	—	—	(27,319)
Adjusted December 31, 2018 net book value	$ 87,314	$ 77,839	$ 18,776	$ 4,044	$ 13,716	$ 18,935	$220,624
Cost	$ 118,390	$ 190,215	$ 50,582	$ 7,825	$ 44,301	$ 31,438	$442,751
Accumulated depreciation	14,349	95,346	28,235	4,317	19,957	11,799	174,003
December 29, 2019 net book value	$ 104,041	$ 94,869	$ 22,347	$ 3,508	$ 24,344	$ 19,639	$268,748

6. LEASES

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. Right-of-use assets consist of the following:

	Land, building and building improvements	Machinery and equipment	Computer hardware and software	Total
Opening balance at December 30, 2018	**$ 103,794**	**$ 443**	**$ 39**	**$ 104,276**
Transition to IFRS 16 (note 2.3)	3,013	22,734	1,572	27,319
Adjusted December 31, 2018 net book value	106,807	23,177	1,611	131,595
Assumed as a result of business acquisitions	15,353	1,845	—	17,198
Additions	17,369	4,475	680	22,524
Disposals	—	—	—	—
Depreciation charge	(12,363)	(6,113)	(874)	(19,350)
Cumulative translation adjustment	1,269	87	—	1,356
December 29, 2019 net book value	$ 128,435	$ 23,471	$ 1,417	$ 153,323

	Land, building and building improvements	Machinery and equipment	Computer hardware and software	Total
Recorded as:				
Cost	$ 107,720	$ 41,608	$ 12,827	$ 162,155
Accumulated Depreciation	913	18,431	11,216	30,560
Adjusted December 31, 2018 net book value	106,807	23,177	1,611	131,595
Cost	141,711	48,016	13,506	203,233
Accumulated Depreciation	13,276	24,545	12,089	49,910
December 29, 2019 net book value	$ 128,435	$ 23,471	$ 1,417	$ 153,323

Total cash outflows for payments on lease liabilities was $15.6 million for the year ended December 29, 2019, of which $9.9 million was for principal repayments.

During the year, the Company expensed $1.0 million in leases that did not meet the requirements for recognition under IFRS 16. These leases were either low value, or had a term of less than twelve months.

The Company assessed the extension periods embedded within each lease for inclusion in the lease liabilities on a lease by lease basis. When it determined it was reasonably certain to exercise the extension option within the lease, the Corporation has included those extension periods in the initial recognition of the right-of-use asset and lease liability. Significant leases where assumptions have been made are long-term building leases.

7. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Trade names	Patents and Licenses	Customer relationship s	Backlog of sales orders	Total
Cost	$ 436,324	$ 224,300	$ 130,867	$ 398,321	$ 6,400	$ 1,196,212
Accumulated amortization	—	963	101,859	103,894	3,534	210,250
December 31, 2017 net book value	436,324	223,337	29,008	294,427	2,866	985,962
Additions	—	—	50	—	—	50
Adjustment to purchase equation for business combinations	(46)	—	—	—	—	(46)
Amortization charge	—	(275)	(12,235)	(19,580)	(2,866)	(34,956)
December 30, 2018 net book value	436,278	223,062	16,823	274,847	—	951,010
Additions	—	—	61	—	—	61
Assumed as a result of business acquisitions (note 1.1)	124,462	43,181	22,287	123,338	14,562	327,830
Amortization charge	—	(275)	(10,842)	(23,054)	(8,414)	(42,585)
Cumulative translation adjustment	8,168	1,408	630	3,879	117	14,202
December 29, 2019 net book value	$ 568,908	$ 267,376	$ 28,959	$ 379,010	$ 6,265	$ 1,250,518
Recorded as:						
Cost	$ 436,278	$ 224,300	$ 130,917	$ 398,321	$ 6,400	$ 1,196,216
Accumulated amortization	—	1,238	114,094	123,474	6,400	245,206
December 30, 2018 net book value	436,278	223,062	16,823	274,847	—	951,010
Cost	568,908	268,889	153,895	525,538	21,079	1,538,309
Accumulated amortization	—	1,513	124,936	146,528	14,814	287,791
December 29, 2019 net book value	$ 568,908	$ 267,376	$ 28,959	$ 379,010	$ 6,265	$ 1,250,518

The recoverable amount of the Company's cash generating units ("CGUs") is determined based on value-in-use calculations. These calculations use estimated cash flow projections based on financial plans approved by the Board covering a three-year period and discount rates based on weighted average cost of capital of like businesses that range between 7% and 14% per annum for the bus, ADL and motor coach manufacturing CGUs, between 11% and 17% for the ARBOC CGU, and between 5% and 10% per annum for the aftermarket parts and ADL parts CGU. Cash flows beyond this period are extrapolated using a steady estimated growth rate based on the long-term average annual growth rate of 3% for each industry in which the CGUs operate. Management has determined planned gross margins based on a projected production schedule, past performance and expectations of market development. The discount rates used reflect specific risk relating to the relevant CGUs.

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

Impairment of the coach CGU may result if one of the following occurs:

- the cash flow projections are lower by 5.6% annually;
- the long-term average annual growth rate is decreased by 0.6% ; or
- the discount rate is higher by at least 0.7%.

Based upon historical operating results, management's forecasts and business plans, the Company's trade names were assigned an indefinite life, except for the "NABI Parts" tradename (net book value of $1,788 at December 29, 2019) which is amortized over its useful life of 12 years.

8. OTHER LONG-TERM ASSETS

		December 29, 2019		December 30, 2018
Long-term restricted deposit (note 24c)	$	14,490	$	—
Long-term accounts receivable		5,122		1,052
	$	19,612	$	1,052

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

9. CURRENT PORTION OF LONG TERM LIABILITIES

		December 29, 2019		December 30, 2018
Deferred revenue (note 13)	$	94,372	$	31,859
Provisions (note 14)		29,314		35,838
Deferred compensation obligation (note 11)		1,678		4,677
Obligations under finance leases (note 6)		19,160		7,936
	$	144,524	$	80,310

10. ACCRUED BENEFIT LIABILITY

Defined benefit plan

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

Information in respect of the Company's defined benefit plan is as follows:	December 29, 2019	December 30, 2018
Change in plan assets		
Plan assets at fair value — beginning of period	$ 125,684	$ 121,651
Interest income	4,503	4,682
Remeasurement gains (losses) - return on plan assets (excluding amounts in net interest)	13,617	(7,608)
Administrative expenses	(1,440)	(399)
Employer's contributions	7,803	22,241
Benefits paid	(52,341)	(7,842)
Plan settlement	(108)	—
Foreign exchange gain (loss)	3,718	(7,041)
Plan assets at fair value — end of period	101,436	125,684
Change in defined benefit obligation		
Defined benefit obligation — beginning of period	130,949	141,455
Current service cost	4,625	5,262
Interest cost	4,685	4,901
Benefits paid	(52,341)	(7,842)
Plan settlement	(1,779)	—
Foreign exchange (gain) loss	3,847	(7,242)
Past Service Costs	—	6,482
Actuarial loss (gain) arising from changes in demographic assumptions	—	(132)
Actuarial loss (gain) arising from changes in financial assumptions	19,636	(12,427)
Actuarial loss arising from experience adjustments assumptions	(149)	492
Defined benefit obligation — end of period	109,473	130,949
Accrued benefit liability - present value of unfunded obligations	$ (8,037)	$ (5,265)

During the year, the Company paid the liabilities for a defined benefit plan that was terminated.

The actual gain on the plan assets for Fiscal 2019 was $18,120 (Fiscal 2018: loss of $2,926).

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

		Fiscal 2019	Fiscal 2018
Country	Mortality Table	Discount Rate	
Canada	CPM2014 Private sector with Scale MI-2017 with size adjustment	3.80%	3.50%
Canada	CPM2014 Private sector with Scale MI-2017 with no size adjustment	3.10%	3.90%
United States	Base table: RP2006, projection scale MP2018	4.35%	4.35%

10. ACCRUED BENEFIT LIABILITY (Continued)

			Discount rate - sensitivity		Life expectancy - sensitivity	
			1% increase	1% decrease	one year increase	one year decrease
Country	Last valuation date	Next valuation date	Then obligation would decrease by:	Then obligation would increase by:	Then obligation would increase by:	Then obligation would decrease by:
Canada	Dec. 31, 2017	Dec. 31, 2020	16.8%	21.6%	1.4%	1.4%
Canada	Dec. 31, 2016	Dec. 31, 2019	20.4%	26.1%	3.5%	3.6%
United States	Dec. 31, 2016	Dec. 31, 2019	5.9%	5.9%	2.9%	2.9%

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

Investment risk

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

Interest rate risk

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

Longevity risk

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

The Company’s defined benefit plan is a fixed benefit plan and, as a result, the rate of compensation increases does not have any impact on the actuarially determined accrued benefit liability. Expected contributions to the defined benefit plan for the 52-week period ending December 29, 2019 are $5,904.

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

	Fiscal 2019	Fiscal 2018
Current service costs	$ 4,625	$ 5,262
Past service costs	—	6,482
Net interest expense	183	219
Administrative expenses	1,440	399
Plan settlement	(1,671)	—
Foreign exchange loss (gain)	1,272	(29)
Components of defined benefit costs recognized in net earnings	$ 5,849	$ 12,333

10. ACCRUED BENEFIT LIABILITY (Continued)

		Fiscal 2019		Fiscal 2018
Remeasurement gains (losses) - return on plan assets (excluding amounts in net interest)	$	13,617	$	(7,608)
Actuarial gains arising from changes in demographic assumptions		—		132
Actuarial (losses) gains arising from changes in financial assumptions		(19,636)		12,427
Actuarial gains (losses) arising from experience adjustments assumptions		149		(492)
Foreign exchange gain (loss)		1,836		(74)
		(4,034)		4,385
Deferred income taxes recorded through other comprehensive loss or income		(356)		(1,215)
Net actuarial (losses) gains recognized in other comprehensive loss or income	$	(4,390)	$	3,170

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

	December 29, 2019	December 30, 2018
Asset category		
Cash and cash equivalents	0.4%	2.5%
Canadian equities	17.7%	12.3%
Foreign equities	32.8%	25.1%
Real estate	3.6%	2.3%
Bonds	45.5%	57.8%
	100.0%	100.0%

11. DEFERRED COMPENSATION OBLIGATION

		December 29, 2019		December 30, 2018
Performance share units under PRSU Plan (officers and senior management)	$	2,088	$	6,753
Restricted share units under PRSU Plan (officers and senior management)		50		638
Deferred share units under DSU Plan (non-employee board of directors)		2,330		2,265
		4,468		9,656
Less: current portion		1,678		4,677
	$	2,790	$	4,979

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

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

RSUs and PSUs granted in Fiscal 2019 were determined based on the volume weighted average trading price of a Share for the last five trading days of 2018 and the desired compensation value.

11. DEFERRED COMPENSATION OBLIGATION (Continued)

As well, the Board adopted NFI's Deferred Share Unit Plan for Non-Employee Directors (the "DSU Plan") on November 7, 2011 and it was amended and restated on December 8, 2015, December 18, 2015 and March 14, 2019. Pursuant to the plan, non-employee directors may elect once each calendar year to receive all or a portion of their annual retainer and meeting fees in the form of deferred share units ("DSUs") instead of cash. A DSU is the right to receive a cash payment based on the value of a Share credited by means of a bookkeeping entry to an account in the name of the non-employee director. DSUs are credited to the director's account on the first day of each calendar quarter, the number of which is determined by dividing the amount of the applicable portion of the director's elected amount by the volume weighted average trading price of a Share for the last five trading days.

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

	PSUs	RSUs	DSUs	Total
Units outstanding at December 31, 2017	131,847	31,780	81,907	245,534
Units granted	53,883	26,942	9,262	90,087
Distribution units granted	5,112	1,620	2,426	9,158
Vested and reclassified as current liability	(75,001)	(31,715)	—	(106,716)
Units outstanding at December 30, 2018	115,841	28,627	93,595	238,063
Units granted	96,523	44,373	18,082	158,978
Distribution units granted	10,460	3,729	5,082	19,271
Units Expired	—	(910)	—	(910)
Units Redeemed	—	—	(10,411)	(10,411)
Vested and reclassified as current liability	(71,347)	(35,470)	—	(106,817)
Units outstanding at December 29, 2019	151,477	40,349	106,348	298,174
Vested units	—	—	106,348	106,348
Unvested units	151,477	40,349	—	191,826

12. SHARE-BASED COMPENSATION - EQUITY SETTLED

The Board adopted a Share Option Plan (the "Option Plan") for NFI on March 21, 2013, under which employees of NFI and certain of its affiliates may receive grants of share options. The Option Plan was amended and restated on December 8, 2015 and on December 31, 2018. Directors who are not employed with NFI are not eligible to participate in the Option Plan. A maximum of 3,600,000 Shares are reserved for issuance under the Option Plan. One quarter of the share options become vested on the first grant date anniversary and an additional one-quarter on the second, third and fourth anniversary of such date.

Option Grant dates	Number	Exercised	Expired	Vested	Unvested	Expiry date	Exercise price	Fair Value at grant date
March 26, 2013	490,356	(483,030)	—	(7,326)	—	March 26, 2021	C$10.20	C$1.55
December 30, 2013	612,050	(573,668)	(9,631)	(28,751)	—	December 30, 2021	C$10.57	C$1.44
December 28, 2014	499,984	(243,587)	(11,368)	(245,029)	—	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	152,883	—	(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
	2,418,260	(1,321,427)	(27,927)	(540,672)	528,234		C$30.77	

12. SHARE-BASED COMPENSATION - EQUITY SETTLED (Continued)

The following reconciles the share 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	(158,031)	C$12.77	(185,860)	C$11.91
Balance at end of period	1,068,906	C$30.77	946,306	C$27.02

Fair values were measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values of the share-based payment plans granted in Fiscal 2019 and Fiscal 2018 are the following:

Options grant date	January 2, 2019	January 2, 2018
Fair value at grant date (C$)	$5.01	$9.53
Share price (C$)	$33.43	$54.00
Exercise price (C$)	$33.43	$54.00
Expected volatility	24.4%	23.3%
Option life (expected weighted average life)	5.5 years	5.5 years
Expected dividends	3.71%	2.48%
Risk-free interest rate (based on government bonds)	1.89%	1.73%

On May 8, 2014, shareholders' approved the Company's Restricted Share Unit Plan for Non-Employee Directors (the "Director RSU Plan"). The Director RSU Plan was amended and restated on December 8, 2015, December 31, 2017 and March 14, 2019. A maximum of 500,000 Shares are reserved for issuance under the Director RSU Plan. Pursuant to the Director RSU Plan, non-employee directors are permitted to elect, once each calendar year, to receive all or a portion of their annual retainer in the form of restricted share units ("Director RSUs") and/or DSUs instead of cash. A Director RSU is a right to acquire a fully-paid and non-assessable Share credited by means of a bookkeeping entry to an account in the name of the non-employee director.

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

	Number of Director RSUs
Balance - December 31, 2017	22,505
Director RSUs issued	15,759
Director RSUs exercised	(15,521)
Balance - December 30, 2018	22,743
Director RSUs issued	25,686
Director RSUs exercised	(17,754)
Balance - December 29, 2019	30,675

13. DEFERRED REVENUE

	December 29, 2019	December 30, 2018
Extended warranties	$ 21,220	$ 16,910
Progress payments	86,506	25,392
	107,726	42,302
Less: current portion of deferred revenue	(94,372)	(31,859)
	$ 13,354	$ 10,443

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

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 base warranty costs during the periods are as follows:

	Insurance Risk Retention	Warranty	Total
December 31, 2017	$ 22,746	80,358	103,104
Additions	12,032	32,711	44,743
Amounts used/realized	(10,274)	(36,332)	(46,606)
Unwinding of discount and effect of changes in the discount rate	—	(82)	(82)
Exchange rate differences	—	(375)	(375)
December 30, 2018	$ 24,504	$ 76,280	$ 100,784
Assumed as a result of business acquisition	—	7,434	7,434
Additions	8,880	44,226	53,106
Amounts used/realized	(5,383)	(47,693)	(53,076)
Unused provision	(504)	(16,642)	(17,146)
Unwinding of discount and effect of changes in the discount rate	—	225	225
Exchange rate differences	—	167	167
	27,497	63,997	91,494
Less current portion	3,000	26,314	29,314
December 29, 2019	$ 24,497	$ 37,683	$ 62,180

15. DEFERRED TAXES AND INCOME TAX EXPENSE

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

	December 29, 2019	December 30, 2018
As presented on statements of financial position:		
Deferred tax liabilities	105,023	83,121
	$ 105,023	$ 83,121

15. DEFERRED TAXES AND INCOME TAX EXPENSE (Continued)

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

		Fiscal 2019	Fiscal 2018
Beginning of period	$	(83,121) $	(88,453)
Assumed as a result of business acquisitions		(41,850)	—
Exchange rate differences		64	321
Tax recorded through net earnings		19,342	5,552
Tax recorded through other comprehensive loss		1,530	(1,171)
Benefit of loss carry forward and share issuance costs recognized against income taxes payable		—	(29)
Tax recorded through equity		(988)	659
End of period	$	(105,023) $	(83,121)

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

Deferred tax liabilities	Unrealized Foreign Exchange	Property Plant and Equipment	Goodwill and Intangibles	Right of Use Assets	Other	Total
December 31, 2017	(8,025)	(6,275)	(136,594)	—	(7,796) $	(158,690)
Tax recorded through net earnings	8,025	(5,524)	9,283	—	6,717	18,501
December 30, 2018	**—**	**(11,799)**	**(127,311)**	**—**	**(1,079)**	**(140,189)**
Tax recorded through net earnings	—	(1,586)	7,639	(28,565)	3,854	(18,658)
Assumed as a result of business acquisition	—	(2,724)	(36,269)	—	(5,643)	(44,636)
Cumulative translation adjustment	—	—	(935)	—	—	(935)
December 29, 2019	**$ — $**	**(16,109) $**	**(156,876) $**	**(28,565) $**	**(2,868) $**	**(204,418)**

15. DEFERRED TAXES AND INCOME TAX EXPENSE (Continued)

Deferred tax assets	Reserves and accruals not currently deductible	Tax Credits	Provisions	Property Plant and Equipment	Right of Use Assets	Loss carry forward	Pension	Deferred Financing Costs and Interest	Other	**Total**
December 31, 2017	23,513	1,153	30,502	1,648	—	1,764	3,541	2,395	5,721	$ 70,237
Tax recorded through net earnings	(9,046)	(67)	(172)	(1,656)	—	867	(624)	(318)	(1,933)	(12,949)
Tax recorded through other comprehensive loss	—	—	—	—	—	—	(1,171)	—	—	(1,171)
Tax recorded through equity	—	—	—	—	—	—	—	—	659	659
Benefit of loss carry forward and share issuance costs recognized against income taxes payable	—	—	—	—	—	—	—	(29)	—	(29)
Exchange rate differences	109	—	141	8	—	(18)	16	11	54	321
December 30, 2018	$ 14,576	$ 1,086	$ 30,471	$ —	$ —	$ 2,613	$ 1,762	$ 2,059	$ 4,501	$ 57,068
Tax recorded through net earnings	11,457	(1,086)	(8,066)	—	29,831	8,930	185	(645)	(2,606)	$ 38,000
Tax recorded through other comprehensive loss	—	—	—	—	—	—	1,530	—	—	$ 1,530
Tax recorded through equity	—	—	—	—	—	—	—	—	(53)	$ (53)
Assumed as a result of business acquisition	—	—	—	—	—	—	—	—	2,786	$ 2,786
Exchange rate differences	17	—	35	—	—	3	2	2	5	$ 64
December 29, 2019	$ 26,050	$ —	$ 22,440	$ —	$ 29,831	$ 11,546	$ 3,479	$ 1,416	$ 4,633	$ 99,395

Deferred income tax asset are recognized for income tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. At December 29, 2019, the Company has recognized all of its deferred income tax assets with the exception of $6.9 million of net operating losses in the U.S, which were acquired through the acquisition of ADL. These losses are restricted to a maximum utilization of $0.2 million per year. At December 29, 2019 the Company has non-capital losses in Canada of $37.2 million, and net operating losses in the U.S. of $7.9 million expiring as follows:

	United States		Canada
	Tax Credits	Tax Losses	Tax Losses
2020-2026	—	1,750	—
2027	5,049	250	—
2028	1,146	250	—
2029	2,349	250	—
2030-2037	—	1,300	317
2038	—	154	11,741
2039	—	154	25,114
2040 - 2063	—	3,696	—
2064	—	134	—

15. DEFERRED TAXES AND INCOME TAX EXPENSE (Continued)

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

	Fiscal 2019	Fiscal 2018
Earnings before income tax expense	$ 99,695	$ 210,653
Tax calculated using a 21% U.S. tax rate	20,936	44,237
Tax effect of:		
Withholding and other taxes	3,747	2,989
Non-taxable income	(6,007)	(1,967)
Revision of tax estimates	3,974	(1,737)
Foreign exchange impact	(1,896)	(8,275)
State taxes	11,873	14,566
Impact of rate change on deferred income taxes	(528)	(849)
Foreign tax credit pools and base erosion and anti-abuse tax	10,482	1,146
Rate differential on income taxed at other than U.S. statutory rate	(728)	(377)
Other	144	978
Income tax expense	$ 41,997	$ 50,711

	Fiscal 2019	Fiscal 2018
Current income taxes	$ 61,339	$ 56,263
Deferred income taxes recovered	(19,342)	(5,552)
Income tax expense for the period	$ 41,997	$ 50,711

16. LONG-TERM DEBT

	Face Value	Unamortized Transaction Costs	**Net Book Value December 29, 2019**	Net Book Value December 30, 2018
Revolving Credit Facility, Unsecured (“Credit Facility”)	1,056,100	2,974	1,053,126	639,432

On October 25, 2018 NFI entered into a new five-year senior unsecured, revolving credit facility 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 Credit Facility. The Credit Facility was increased by $250M and the $300M Acquisition Revolver was extinguished. The term of the Credit Facility was extended to August 2, 2024.

The unsecured Credit Facility has a total borrowing limit of $1.250 billion, which includes a $100 million letter-of-credit facility and a $250 million accordion feature. $12.8 million of outstanding letters-of-credit were drawn against the Credit Facility at December 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 2, 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.

17. SHARE CAPITAL

	December 29, 2019	**December 30, 2018**
Authorized - Unlimited		
Issued - 62,493,880 Common Shares (December 30, 2018: 61,832,625)	$ 680,962	$ 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

17. SHARE CAPITAL (Continued)

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 subsequent to 2019 Q1.

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	159		1,802
Restricted share units exercised	16		416
Issuance of shares - ADL purchase	1,472		34,888
Repurchase and cancellation of Shares	(986)		(10,451)
Balance - December 29, 2019	62,494	$	680,962

18. EARNINGS PER SHARE

		Fiscal 2019		Fiscal 2018
Net earnings attributable to equity holders	$	57,698	$	159,942
Weighted average number of Shares in issue		61,809,479		62,396,962
Add: net incremental Shares from assumed conversion of stock options and exercise of restricted share units		188,398		438,968
Weighted average number of Shares for diluted earnings per Share		61,997,877		62,835,930
Net earnings per Share (basic)	$	0.9335	$	2.5633
Net earnings per Share (diluted)	$	0.9306	$	2.5454

Basic earnings per Share is calculated by dividing the net earnings attributable to equity holders of the Company by the weighted average number of Shares outstanding during the period excluding Shares purchased by the Company and held as treasury shares. During the period the Company held no treasury shares.

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

19. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	Fiscal 2019	Fiscal 2018
Accounts receivable	$ (63,592)	$ (1,019)
Income tax receivable	15,111	(9,204)
Inventories	(40,147)	(70,382)
Prepaid expenses and deposits	5,627	4,820
Accounts payable and accrued liabilities	42,474	51,925
Income tax payable	—	(7,328)
Deferred revenue	(4,786)	(525)
Provisions	(16,724)	(2,279)
Other	(29,287)	(352)
	$ (91,324)	$ (34,344)

20. DEFINED CONTRIBUTION PENSION PLANS

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

	Fiscal 2019	Fiscal 2018
Defined contribution pension expense	$ 9,767	$ 5,522

Cash payments contributed by the Company during Fiscal 2019 for its defined benefit and defined contribution pension plans amounted to $17.6 million (2018: $27.6 million).

21. 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

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT(Continued)

similar assets and liabilities in inactive markets, inputs that are observable that are not prices (such as interest rates and credit risks) and inputs that are derived from or corroborated by observable market data.

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

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

	December 29, 2019		
	Fair value level	Carrying amount	Fair value
Financial assets recorded at fair value			
Cash	Level 1	$ 28,233	$ 28,233
Long-term restricted cash	Level 1	$ 14,490	$ 14,490
Financial liabilities recorded at fair value			
Total return swap contracts	Level 2	$ 944	$ 944
Foreign exchange forward contracts	Level 2	$ 3,707	$ 3,707
Derivative financial instrument liabilities - current		$ 4,651	$ 4,651
Interest rate swap	Level 2	$ 15,388	$ 15,388
Derivative financial instrument liabilities - long term		$ 15,388	$ 15,388

	December 30, 2018		
	Fair value level	Carrying amount	Fair value
Financial assets recorded at fair value			
Cash	Level 1	$ 10,820	$ 10,820
Interest rate swap	Level 2	$ 6,592	$ 6,592
Derivative financial instrument assets - long term		$ 6,592	$ 6,592
Financial liabilities recorded at fair value			
Foreign exchange forward contracts	Level 2	$ 1,542	$ 1,542
Derivative financial instrument liabilities - current		$ 1,542	$ 1,542

(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 and total comprehensive income consistent with the underlying nature and purpose of the derivative instruments.

Market risk (interest rate risk and foreign currency risk)

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

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT(Continued)

exchange and other market risks. The Company uses derivative financial instruments to manage interest rate and foreign exchange risks in accordance with its risk management policies.

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

Interest rate risk

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

The interest rate swap is subject to interest rate risk. As an illustration, if interest rates at the Consolidated Statements of Financial Position date had been 100 basis points lower, with all other variables held constant, net earnings and comprehensive income for Fiscal 2019 would have been lower by $15.3 million (Fiscal 2018: $3.2 million), arising mainly as a result of the related fair value adjustment recorded due to lower interest rate. If interest rates had been 100 basis points higher, with all other variables held constant, net earnings and comprehensive income for Fiscal 2019 would have been higher by $14.8 million (Fiscal 2018: $2.9 million), arising mainly as a result of the related fair value adjustment recorded due to higher interest rate.

On February 13, 2019, the Company entered into a $600,000 notional interest rate swap 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.

Equity price risk

The Company entered into a total return swap transaction to hedge the exposure associated with increases in its share value on a portion of the outstanding 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 December 29, 2019 the Company held a position of 232,995 Shares at a weighted average price of C$31.99. The Company does not apply hedge accounting to these derivative instruments and as such, gains and losses arising from marking these derivatives to market are recognized in net earnings in the period in which they arise.

Foreign currency risk

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

During Fiscal 2019, the Company generated a net outflow of Canadian dollars. As a matter of policy, the Company enters into foreign exchange forward contracts to protect the expected net Canadian dollar exposure from exchange fluctuation. The Company recorded a net realized foreign exchange gain of $1.0 million during Fiscal 2019 (Fiscal 2018: loss of $5.8 million). This was comprised of a $1.8 million gain on settlement of foreign exchange contracts and a $0.8 million foreign currency loss on translation of Canadian dollar denominated working capital and dividends.

At December 29, 2019, the Company had $216.4 million of foreign exchange forward contracts to buy currencies in which the Company operates with U.S. dollars, Canadian dollars, or GBP. These foreign exchange contracts range in expiry dates from January 2020 to November 2020. The related liability of $3.7 million (December 30, 2018: $1.5 million liability) is recorded on the consolidated statements of financial position as a current derivative financial instruments liability and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the consolidated statements of net earnings and total comprehensive income.

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk, primarily Canadian dollar balances. As an illustration, at December 29, 2019 if the Canadian dollar had weakened 10 percent against the U.S. dollar, with all other variables held constant, net earnings for Fiscal 2019 would have been lower by $3.2 million (Fiscal 2018: $1.3 million). Conversely, if the Canadian dollar had strengthened 10 percent against the U.S. dollar, with all other variables held constant, net earnings would have been higher by $3.9 million for Fiscal 2019 (Fiscal 2018: $1.5 million).

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT(Continued)

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 December 29, 2019, the Company had a cash balance of $28.2 million (December 30, 2018: $10.8 million), the $1.056 billion under the Credit Facility due in 2024 (December 30, 2018: $641.6 million) and $12.8 million of outstanding letters of credit (December 30, 2018: $13.8 million). In addition, there are $38.3 million of the letters of credit outstanding outside of the Credit Facility. The unsecured Credit Facility has a total borrowing limit of $1.250 billion, which includes a $100 million letter-of-credit facility and a $250 million accordion feature. The liquidity position as at December 29, 2019 is $209.3 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 liability and committed leases as at December 29, 2019:

US dollars in thousands	Total	2020	2021	2022	2023	2024	Post 2024
Leases	211,101	23,271	21,886	19,666	16,539	12,489	117,250
Accrued benefit liability	3,936	3,936	—	—	—	—	—
	$ 215,037	$ 27,207	$ 21,886	$ 19,666	$ 16,539	$ 12,489	$ 117,250

Credit risk

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

Additionally, up to 80% of the capital cost of new transit buses and coaches sold to public transit authorities and municipalities typically come from the U.S. Federal Transit Administration, while the remaining 20% comes from state and municipal sources. The maximum exposure to the risk of credit for accounts receivable corresponds to their book value. Historically, the Company has experienced nominal bad debts as a result of the customer base being principally comprised of municipal and other local transit authorities. During Fiscal 2019, the Company recorded a bad debt expense of $177 as compared to $184 bad debt expense in Fiscal 2018.

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

	December 29, 2019	December 30, 2018
Current, including holdbacks	$ 482,476	$ 358,729
Past due amounts but not impaired		
1 – 60 days	37,413	24,153
Greater than 60 days	6,800	4,830
Less: Allowance for doubtful accounts	(284)	(226)
Total accounts receivables, net	$ 526,405	$ 387,486

As at December 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. 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

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT(Continued)

provide relief from the impact of changes in accounting policies, including the impact of IFRS 16. At as December 29, 2019, the Company was in compliance with the ratios. The results of the financial covenants tests as of such date are as follows:

	December 29, 2019	December 30, 2018
Total Leverage Ratio (must be less than 4.25 for one year following a material acquisition)	3.24	2.09
Interest Coverage Ratio (must be greater than 3.00)	7.73	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 interest coverage ratio remains unchanged.The terms of the Credit Facility provide relief for changes in accounting requirements.

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

(d) Capital management

The Company's objectives in managing capital are to deploy capital to provide an appropriate return to shareholders and to maintain a capital structure that provides the flexibility to take advantage of growth and development opportunities, maintain existing assets, meet financial obligations and enhance the value of the Shares. The capital structure of the Company consists of cash, long-term debt, other long-term liabilities and shareholders' equity. 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.

22. 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 manufacture, service and support of new transit buses, coaches, 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 $413 (2018: $235), 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 from the sale of aftermarket parts for transit buses and motor coaches and medium-duty and cutaway buses.

In 2018 the MCI service function, comprised of technical service management and customer training, which was previously managed by the MCI aftermarket operations, was moved to the coach manufacturing operations. To improve the comparability between periods, the related prior year segment information has been restated to reflect these changes.

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

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

Segment information about profits and assets is as follows:

22. SEGMENT INFORMATION (Continued)

	Fiscal 2019			
	Manufacturing Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 2,476,020	$ 417,416	—	$ 2,893,436
Operating costs and expenses	2,350,710	353,805	89,226	2,793,741
Earnings (loss) before income tax expense	125,310	63,611	(89,226)	99,695
Total assets	2,268,805	421,693	261,384	2,951,882
Addition of capital expenditures	36,195	1,380	—	37,575
Addition of goodwill and intangibles assets	250,174	25,674		327,891
Goodwill	416,934	151,974	—	568,908

Goodwill and intangible assets related to acquisition of ADL have been provisionally allocated as at December 29,2019.

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.

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

The Company's revenue by geography is summarized below:

	Fiscal 2019	**Fiscal 2018**
North America	$ 2,508,199	$ 2,519,021
UK and Europe	320,116	—
Asia Pacific	63,703	—
Other	1,418	—
Total	$ 2,893,436	$ 2,519,021

The Company had no customers in Fiscal 2019 or Fiscal 2018 with revenue greater than 10% of the Company's revenue.

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

	Fiscal 2019	Fiscal 2018
Transit buses	$ 1,847,126	$ 1,502,115
Motor coaches	526,539	537,159
Medium-duty and cutaway buses	49,816	41,770
Pre-owned coach	45,951	46,284
Fiberglass reinforced polymer components	6,588	14,539
Manufacturing revenue	$ 2,476,020	$ 2,141,867

22. SEGMENT INFORMATION (Continued)

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

	December 29, 2019	December 30, 2018
North America	$ 224,085	$ 247,943
UK and Europe	43,623	—
Asia Pacific	1,040	—
Other	—	—
Total	$ 268,748	$ 247,943

23. RELATED PARTY TRANSACTIONS

Compensation of key management

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

	Fiscal 2019	Fiscal 2018
Salaries and short-term employee benefits	$ 8,333	$ 10,294
Post-employment benefits	414	396
Share-based payment benefits	1,433	1,352
	$ 10,180	$ 12,042

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

24. COMMITMENTS AND CONTINGENCIES

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

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

The Company's guarantee under each bond issued by the surety companies expires on completion of obligations under the customer contract to which the bond relates. The estimated maturity dates of the surety bonds outstanding at December 29, 2019 range from January 2020 to December 2026.

At December 29, 2019, outstanding surety bonds guaranteed by the Company totaled $384.5 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.

(c) 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 December 29, 2019, letters of credit totaling $12.8 million (December 30, 2018: $13.8 million) remain outstanding as security for contractual obligations of the Company under the Credit facility.

24. COMMITMENTS AND CONTINGENCIES (Continued)

	December 29, 2019	December 30, 2018
Collateral to secure operating facility leases	$ 329	$ 315
Collateral to secure line of credit	6,700	6,700
Customer performance guarantees	655	1,099
Collateral for self-insured workers compensation and general liability obligations	5,155	5,655
	$ 12,839	$ 13,769

The Company has an additional bi-lateral credit facility of $63.6 million. As at December 29, 2019, letters of credit totaling $23.8 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 December 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.

25. GUARANTEES

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

26. SUPPLEMENTARY EXPENSE INFORMATION

	Fiscal 2019	Fiscal 2018
Employee benefit expense	$ 445,167	$ 365,142
Depreciation of plant and equipment	61,985	32,840
Amortization of intangible assets	42,585	34,956

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

27. COMPARATIVE FIGURES

Certain comparative figures have been restated where necessary to conform with current period presentation.