August 13, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS AND 26-WEEKS ENDED JUNE 30, 2019

Information in this Management's Discussion and Analysis ("MD&A") relating to the financial condition and results of operations of NFI Group Inc. ("NFI") is supplemental to, and should be read in conjunction with, NFI's unaudited interim condensed consolidated financial statements (including notes) (the "Financial Statements") for the 13-week period and the 26-week period ended June 30, 2019 ("2019 Q2" and "2019 Q2 YTD", respectively).

This MD&A contains forward-looking statements, which are subject to a variety of factors that could cause actual results to differ materially from those contemplated by the forward-looking statements. See "Forward-looking Statements". Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the factors described in the public filings of NFI available on SEDAR at www.sedar.com. The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and, except where otherwise indicated, are presented in U.S. dollars, which is the functional currency of NFI. Unless otherwise indicated, the financial information contained in this MD&A has been prepared in accordance with IFRS and references to "$" or "dollars" mean U.S. dollars.

QUARTERLY AND ANNUAL REPORTING PERIODS

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

	Period from December 31, 2018 to December 29, 2019 ("Fiscal 2019")			Period from January 1, 2018 to December 30, 2018 ("Fiscal 2018")		
	Period End Date		# of Calendar Weeks	Period End Date		# of Calendar Weeks
Quarter 1	March 31, 2019	("2019 Q1")	13	April 1, 2018	("2018 Q1")	13
Quarter 2	June 30, 2019	("2019 Q2")	13	July 1, 2018	("2018 Q2")	13
Quarter 3	September 29, 2019	("2019 Q3")	13	September 30, 2018	("2018 Q3")	13
Quarter 4	December 29, 2019	("2019 Q4")	13	December 30, 2018	("2018 Q4")	13
Fiscal year	December 29, 2019		52	December 30, 2018		52

MEANING OF CERTAIN REFERENCES

References in this MD&A to the "Company" are to NFI and all of its direct or indirect subsidiaries, including New Flyer Industries Canada ULC ("NFI ULC"), New Flyer of America Inc. ("NFAI"), The Aftermarket Parts Company, LLC ("TAPC"), TCB Enterprises, LLC ("TCB"), KMG Fabrication, Inc. ("KMG"), Carfair Composites Inc. ("CCI") and Carfair Composites USA, Inc. ("CCUI", and together with "CCI", "Carfair"), The Reliable Insurance Company Limited, ARBOC Specialty Vehicles, LLC ("ARBOC"), New MCI Holdings, Inc. and its affiliated entities (collectively, "MCI"), NFI Holdings Luxembourg s.a.r.l., and Alexander Dennis Limited and its affiliated entities (collectively, "ADL") References to "New Flyer" generally refer to NFI ULC, NFAI, TAPC, KMG, CCI, CCUI and TCB. References in this MD&A to "management" are to senior management of NFI and the Company.

The common shares of NFI ("Shares") are traded on the Toronto Stock Exchange ("TSX") under the symbol "NFI". As at June30, 2019, 62,370,419 Shares were issued and outstanding. Additional information about NFI and the Company, including NFI's annual information form, is available on SEDAR at www.sedar.com.

A "motor coach" or "coach" is a 35-foot to 45-foot over-the-highway bus typically used for intercity transportation and travel over longer distances than heavy-duty transit buses, and is typically characterized by (i) 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. ARBOC manufactures body-on-chassis or "cutaway" and "medium-duty" buses that service transit, paratransit, and shuttle applications. Buses manufactured by New Flyer and ADL's single and double deck buses are classified as "transit buses". Collectively, transit buses, medium-duty buses and cutaways, are referred to as "buses".

All of the data presented in this MD&A with respect to the number of transit buses, medium-duty buses, cutaways and motor coaches in service and delivered, is measured in, or based on, "equivalent units". One equivalent unit (or "EU") represents one production slot, being one 30-foot, 35-foot, 40-foot, 45-foot heavy-duty transit bus, one double deck bus, one medium-duty bus, one cutaway bus or one motor coach, whereas one articulated transit bus represents two equivalent units. An articulated transit bus is an extra long transit bus (approximately 60-feet in length), composed of two passenger compartments connected by a joint mechanism. The joint mechanism allows the vehicle to bend when the bus turns a corner, yet have a continuous interior.

Forward-looking Statements

Certain statements in this MD&A are “forward looking statements”, which reflect the expectations of management regarding the Company's future growth, results of operations, performance and business prospects and opportunities. The words “believes”, “anticipates”, “plans”, “expects”, “intends”, “projects”, “forecasts”, “estimates” and similar expressions are intended to identify forward looking statements. These forward-looking statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this MD&A. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not or the times at or by which such performance or results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements. Such differences may be caused by factors which include, but are not limited to, funding may not continue to be available to the Company’s customers at current levels or at all, the Company’s business is affected by economic factors and adverse developments in economic conditions which could have an adverse effect on the demand for the Company’s products and the results of its operations, currency fluctuations could adversely affect the Company’s financial results or competitive position, interest rates could change substantially, materially impacting the Company’s revenue and profitability, an active, liquid trading market for the Shares may cease to exist, which may limit the ability of shareholders to trade Shares, the market price for the Shares may be volatile, if securities or industry analysts do not publish research or reports about the Company and its business, 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, if securities or industry analysts publish inaccurate or unfavorable research about the Company or its business, the Share price and trading volume of the Shares could decline, competition in the industry and entrance of new competitors, failure of the ratification of the United States-Mexico-Canada Agreement (USMCA) could be materially adverse to NFI, the exit of Great-Britain from the European Union could be materially adverse to NFI, current requirements under “Buy America” regulations may change and/or become more onerous or suppliers’ “Buy America” content may change, the implications from Brexit could have a negative impact on the Company’s UK business, operations and sales from the UK into the EU and the Company may have to modify its UK business practices in order to attempt to mitigate such impact and such mitigation steps may not be effective, failure of the Company to comply with the DBE program requirements or the failure to have its DBE goals approved by the FTA, absence of fixed term customer contracts, exercise of options and customer suspension or termination for convenience, United States content bidding preference rules may create a competitive disadvantage, local content bidding preferences in the United States may create a competitive disadvantage, requirements under Canadian content policies may change and/or become more onerous, operational risk, dependence on limited sources or unique sources of supply, dependence on supply of engines that comply with emission regulations, a disruption, termination or alteration of the supply of vehicle chassis or other critical components from third-party suppliers could materially adversely affect the sales of certain of the Company’s products, the Company’s profitability can be adversely affected by increases in raw material and component costs as well as the imposition of tariffs and surtaxes on material imports, the Company may incur material losses and costs as a result of product warranty costs, recalls and remediation of buses, production delays may result in liquidated damages under the Company’s contracts with its customers, catastrophic events may lead to production curtailments or shutdowns, the Company may not be able to successfully renegotiate collective bargaining agreements when they expire and may be adversely affected by labour disruptions and shortages of labour, the Company’s operations are subject to risks and hazards that may result in monetary losses and liabilities not covered by insurance or which exceed its insurance coverage, the Company may be adversely affected by rising insurance costs, the Company may not be able to maintain performance bonds or letters of credit required by its contracts or obtain performance bonds and letters of credit required for new contracts, the Company is subject to litigation in the ordinary course of business and may incur material losses and costs as a result of product liability claims, the Company may have difficulty selling pre-owned coaches and realizing expected resale values, the Company may incur costs in connection with provincial, state or federal regulations relating to axle weight restrictions and vehicle lengths, the Company may be subject to claims and liabilities under environmental, health and safety laws, dependence on management information systems and cyber security risks, the Company’s ability to execute its strategy and conduct operations is dependent upon its ability to attract, train and retain qualified personnel, including its ability to retain and attract executives, senior management and key employees, the Company may be exposed to liabilities under applicable anti-corruption laws and any determination that it violated these laws could have a material adverse effect on its business, the Company’s risk management policies and procedures may not be fully effective in achieving their intended purposes, internal controls over financial reporting, disclosure controls and procedures, ability to successfully execute strategic plans and maintain profitability, development of competitive or disruptive products, services or technology, development and testing of new products, acquisition risk, third-party distribution/dealer agreements, availability to the Company of future financing, the Company may not be able to generate the necessary amount of cash to service its existing debt, which may require the Company to refinance its debt, the Company’s substantial consolidated indebtedness could negatively impact the business, the restrictive covenants in the Company's credit facilities could impact the Company’s business and affect its ability to pursue its business strategies, payment of dividends is not guaranteed, a significant amount of the Company’s cash is distributed, which may restrict potential growth, NFI is dependent on its subsidiaries for all cash available for distributions, future sales or the possibility of future sales of a substantial number of Shares may impact the price of the Shares and could result in dilution, if the Company is required to write down goodwill or other intangible assets, its financial condition and operating results would be negatively affected, income tax risk, investment eligibility and Canadian Federal Income Tax risks, the effect of comprehensive U.S. tax reform legislation on the NF Group, whether adverse or favorable, is uncertain, certain U.S. tax rules may limit the ability of NF Holdings and its U.S. subsidiaries (the "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 including: gains or losses on disposal of property, plant and equipment, fair value adjustment for total return swap, unrealized foreign exchange losses or gains on non-current monetary items and forward foreign exchange contracts, costs associated with assessing strategic and corporate initiatives, past service costs, non-recurring recoveries relating to business acquisitions, fair value adjustment to acquired subsidiary company's inventory and deferred revenue, proportion of the total return swap realized, equity settled stock-based compensation, provisions for state sales tax, recovery of currency transactions, gain on bargain purchase of subsidiary company and provision release related to purchase accounting. "Free Cash Flow" means net cash generated by operating activities adjusted for changes in non-cash working capital items, interest paid, interest expense, income taxes paid, current income tax expense, principal portion of finance lease payments, cash capital expenditures, proceeds from disposition of property, plant and equipment, costs associated with assessing strategic and corporate initiatives, non-recurring transitional costs related to business acquisition, fair value adjustment to acquired subsidiary company's inventory and deferred revenue, defined benefit funding, defined benefit expense, past service costs, proportion of total return swap, foreign exchange gain (loss) on cash held in foreign currency and gain on release of provision related to purchase accounting. 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: gains or losses on disposal of property, plant and equipment, unrealized foreign exchange losses or gains on non-current monetary items, fair value adjustment for total return swap, non-recurring transitional costs or recoveries relating to business acquisitions, equity settled stock-based compensation, gain on bargain purchase of subsidiary company, fair value adjustment to acquired subsidiary company's inventory and deferred revenue, past service costs, costs associated with assessing strategic and corporate initiatives, gain on release of provision related to purchase accounting and proportion of the total return swap realized. References to "Adjusted Earnings per Share" are to Adjusted Net Earnings divided by the average number of Shares outstanding.

Management believes Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Earnings per Share are useful measures in evaluating the performance of the Company. However, Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Earnings per Share are not recognized earnings measures under IFRS and do not have standardized meanings prescribed by IFRS. Readers of this MD&A are cautioned that ROIC, Adjusted Net Earnings and Adjusted EBITDA should not be construed as an alternative to net earnings or loss or cash flows from operating activities determined in accordance with IFRS as an indicator of NFI's performance, and Free Cash Flow should not be construed as an alternative to cash flows from operating, investing and financing activities determined in accordance with IFRS as a measure of liquidity and cash flows. A reconciliation of net earnings and cash flows to Adjusted EBITDA, based on the Financial Statements, has been provided under the headings "Reconciliation of Net Earnings to Adjusted EBITDA" and "Reconciliation of Cash Flow to Adjusted EBITDA", respectively. A reconciliation of Free Cash Flow to cash flows from operations is provided under the heading "Summary of Free Cash Flow". A reconciliation of net earnings to Adjusted Net Earnings is provided under the heading "Reconciliation of Net Earnings to Adjusted Net Earnings".

NFI's method of calculating Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Earnings per Share may differ materially from the methods used by other issuers and, accordingly, may not be comparable to similarly titled measures used by other issuers. Dividends paid from Free Cash Flow are not assured, and the actual amount of dividends received by holders of Shares will depend on, among other things, the Company's financial performance, debt covenants and obligations, working capital requirements and future capital requirements, all of which are susceptible to a number of risks, as described in NFI's public filings available on SEDAR at www.sedar.com.

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 and New Zealand; and the Other category includes any sales that do not fall into the categories above.

2019 Second Quarter Highlights

The second quarter of 2019 was a significant milestone for the Company as it transitioned from being a purely North American company to a leading independent global bus manufacturer with the acquisition of ADL. ADL is the UK's largest bus builder and a leading global manufacturer of double deck heavy-duty transit buses with operations in over 10 countries. NFI acquired ADL for £295.1 million, based on an initial enterprise value of £320 million. The transaction was funded through NFI's existing credit facility, a new $300 million credit facility and the issuance from treasury of 1.47 million Shares of NFI, in lieu of cash to ADL's primary shareholders. The transaction is expected to be accretive (before potential synergies) to NFI's earnings per share and cash flow per share and adds to NFI with the broadest product offering in North America and well positioned for future international growth. NFI incurred costs of approximately $13.3 million associated with the acquisition of ADL that are considered to be one-time in nature.

ADL has completed its conversion from UK GAAP to IFRS and as such, its results from May 28, 2019 (the "Acquisition Date") onward are included in NFI's financial results for 2019 Q2. In order to provide context on ADL's operations, management has provided proforma Fiscal 2018, 2019 Q1 and 2019 Q2 (pre-and post-acquisition) within this MD&A. While ADL did not positively contribute to NFI's results for the one-month period ended June 30, results were within management's expectations as there were some adjustments required from the conversion to IFRS that impacted revenue recognition. ADL's first half 2019 results were very similar to the first half of Fiscal 2018 with first and second quarter results varying due to the timing and location of vehicle deliveries.

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

The Company continued to pay its quarterly dividend of C$0.425 per share (annual rate of C$1.70 per share) resulting in a payout ratio for 2019 Q2 YTD of 54%. The board expects to maintain dividends at this rate on a quarterly basis, although such dividends are not assured.

Other significant events during the quarter included:

- The Company received new orders (firm and option) for 474 EUs from several key customers and 350 option EUs were converted to firms orders
- 2019 Q2 bid universe activity increased as expected by management. As disclosed in NFI's July 16, 2019 press release, the active bids have increased by 450 EUs compared to 2018 Q2 and 771 EUs compared to 2019 Q1, representing an increase of 12% and 23%, respectively
- New Flyer's Infrastructure Solutions™, a service aimed at providing safe, reliable, smart and sustainable charging and mobility solutions to public transit customers, completed the installation of New York's first interoperable, on route-charging solution
- Tri-County Metropolitan Transportation District of Oregon welcomed its first zero-emission, battery-electric Xcelsior Charge bus and the Xcelsior Charge H2™ achieved 350 miles of zero-emission range in a test for the Orange County Transportation Authority
- NFI's continued focus on innovation and technology was evident through New Flyer's launch of an autonomous bus program that includes development of Advanced Driver-Assistance Systems and Automated Vehicles plus a partnership with Robotic Research, a U.S. based innovative engineering and technology company that has provided autonomous solutions to commercial and government customers, including the U.S. Department of Defense
- At NFI's 2019 annual general meeting of shareholders, it was announced that Katherine (Kathy) Winter, the Vice President & General Manager, Automated Driving Solutions Division of Intel Corporation, was elected as a Director of NFI
- MCI continued to deliver its initial J3500 coaches to the market and subsequent to quarter-end MCI received approval from New Jersey Transit for an additional 183 commuter coaches on its existing contract
- ADL's new ultra-low emission Enviro400 City double deck vehicles were put into service by First Glasgow as part of its premium Glasgow Airport Express service and ADL also secured a 50-vehicle order from Singapore's Land Transportation Authority for 50 new Enviro500 double deck buses that feature a new three door, two staircase layout

While there were many positives in the quarter, the Company experienced production and delivery challenges that impacted financial results. New product launches, catch-up from ARBOC's chassis supply disruption, internal and external supply delays, missed production days in 2019 Q1 and postponed customer acceptance inspections, all lead to missed deliveries and growth of work-in-progress inventory (WIP). Management is focused on recovering from these issues and has implemented a WIP recovery plan, with dedicated resources, to improve deliveries on existing and new contracts in the second half of 2019.

The private motor coach market continued to experience softness during 2019 Q2 as overall market deliveries were lower than management's expectations. Based on opportunities that management is pursuing it anticipates that the second half of 2019 will be a busier period in the private motor coach sector than the first half of the year, with 2019 Q4 expected to see significant sales activity.

2019 Q2 Adjusted EBITDA of $81.1 million decreased from $91.4 million in 2018 Q2, primarily as a result of the production and delivery challenges and a softening North American private coach market as discussed above. NFI's second quarter financial results were impacted by several factors that are discussed in detail throughout this MD&A. Several of these items are expected to be one-time or non-recurring, while others had a non-cash impact. Net Earnings of $8.5 million was impacted by one-time adjustments that included:

- Costs associated with assessing strategic and corporate initiatives (primarily ADL) of $13.3 million
- Recovery of $2.8 million related to historic currency transactions made by MCI
- Booking of a $2.5 million liability for a sales tax provision related to historic sales of MCI motor coaches

After adjusting for these items, the Adjusted Net Earnings was $25.8 million.

2019 Second Quarter Financial Results

On 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. For further detail on the prior year results of ADL, please see Appendix A contained within this MD&A.

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

ADL Select Adjusted Historical Information
(Unaudited, U.S. dollars in million 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 adjusted historical revenue[1]	£ 99,145	£ 177,954	£ 165,050	£ 152,508	£ 594,657	£ 150,327	£ 103,479	£ 64,132	£ 39,347
Average exchange rate for the period	1.3910	1.3630	1.3040	1.2880		1.3010	1.280	1.2920	1.2667
	$ 137,911	$ 242,551	$ 215,225	$ 196,430	$ 792,117	$ 195,575	$ 132,700	$ 82,859	$ 49,841
Reconciliation of earnings (loss) before interest and income tax expense to Adjusted EBITDA									
ADL's adjusted historical earnings (loss) before interest and income tax expense[1]	£ (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[2]	£ (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
	$ (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.

[2] Adjusted EBITDA is not a recognized earnings measure and does not have standardized meaning prescribed under IFRS. Therefore it may not be comparable to similar measures presented by other issuers.

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 presents 2019 Q2 information, excluding the impact of IFRS 16 in areas where the impact is significant. See "Critical Accounting Estimates and Judgments" below.

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

Consolidated Revenue (Unaudited, U.S. dollars in millions)	**2019 Q2**	**2018 Q2**	**2019 Q2 YTD**	**2018 Q2 YTD**
Transit buses	$ 440.5	$ 397.1	$ 823.5	$ 754.9
Motor coaches	119.4	150.7	193.6	248.4
Medium-duty and cutaway	10.6	10.2	17.9	21.3
New transit bus, coach and cutaway	$ 570.5	$ 558.0	$ 1,035.0	$ 1,024.6
Pre-owned coach	10.9	11.7	20.9	19.8
Fiberglass reinforced polymer components	1.6	4.9	3.7	8.8
Manufacturing	$ 583.0	$ 574.6	$ 1,059.6	$ 1,053.2
Aftermarket	100.3	98.4	190.9	198.5
Total Revenue	$ 683.4	$ 673.0	$ 1,250.5	$ 1,251.7
North America	$ 641.4	$ 673.0	$ 1,208.4	$ 1,251.7
United Kingdom and Europe	38.2	—	38.2	—
Asia Pacific	3.5	—	3.4	—
Other	0.3	—	0.3	—
Total Revenue	$ 683.4	$ 673.0	$ 1,250.3	$ 1,251.7
Deliveries				
Transit buses	839	739	1,532	1,410
Motor coaches	241	287	381	474
Medium-duty and cutaway	95	133	165	268
Total new build	1,175	1,159	2,078	2,152
Pre-owned coach	92	102	175	166
	1,267	1,261	2,253	2,318

Manufacturing revenue for 2019 Q2 increased by $8.4 million, or 1.5% compared to 2018 Q2. The acquisition of ADL contributed $41.0 million to revenue during 2019 Q2. Also contributing to the increase is higher average selling prices within the transit bus and medium-duty and cutaway businesses related to product mix. Partially offsetting this increase were lower volumes of 12.1% in the Company's manufacturing businesses prior to the acquisition of ADL ("legacy manufacturing businesses"). Volumes were lower in each of transit bus, motor coach, and medium-duty products. The Company experienced production and delivery changes as a result of new product launches, ARBOC's chassis supply disruption, international external supply issues and missed production days due to weather. The result of these factors all lead to missed production and deliveries and growth in work-in-process and finished goods. As work-in-process is reduced to normal levels these sales are expected to be realized in future periods.

Manufacturing revenue for 2019 Q2 YTD increased by $6.4 million, or 0.6% compared to 2018 Q2 YTD. The acquisition of ADL contributed $41.0 million to revenue during 2019 Q2 YTD. Partially offsetting this increase were lower volumes of 9.6% in the Company's legacy manufacturing businesses. The lower volumes were impacted by the same factors noted above.

Revenue from aftermarket operations in 2019 Q2 increased by $1.9 million, or 1.9% compared to 2018 Q2. The acquisition of ADL contributed $8.8 million to revenue during 2019 Q2. Partially offsetting this increase were lower sales volumes within the Company's legacy aftermarket business (being the aftermarket business prior to the acquisition of ADL). In 2018 Q2 Daimler cancelled MCI's Distribution Rights Agreement ("DRA") relating to the distribution of Daimler's Setra motor coaches. The cancellation of the DRA by Daimler in 2018 resulted in a $2 million decrease in aftermarket parts revenue in 2019 Q2 compared to 2018 Q2.

Revenue from aftermarket operations in 2019 Q2 YTD decreased by $7.6 million, or 3.8% compared to 2018 Q2 YTD. The decrease was primarily due to lower sales volumes in the legacy aftermarket business. The cancellation of the DRA resulted in a $4 million decrease in aftermarket parts revenue in 2019 Q2 YTD compared to 2018 Q2 YTD. The decreases were partially offset by revenues related to the acquisition of ADL of $8.8 million during 2019 Q2 YTD.

Gross Margins (Unaudited, U.S. dollars in millions)	**2019 Q2**	**2019 Q2** (excluding IFRS 16)	**2018 Q2**	**2019 Q2 YTD**	**2019 Q2 YTD** (excluding IFRS 16)	**2018 Q2 YTD**
Manufacturing	70.2	70.3	97.2	135.9	135.6	175.4
Aftermarket	28.6	29.2	27.6	53.5	54.8	56.0
Total Gross Margins	$ 98.8	$ 99.5	$ 124.8	$ 189.4	$ 190.4	$ 231.4
As a percentage of sales						
Manufacturing	12.0%	12.1%	16.9%	12.8%	12.8%	16.7%
Aftermarket	28.5%	29.7%	28.0%	28.0%	28.7%	28.2%
	14.5%	14.6%	18.3%	15.1%	15.2%	18.5%

Manufacturing gross margins for 2019 Q2, excluding the impact of IFRS 16, of $70.3 million (12.0% of revenue), decreased by $26.9 million, or 27.7% compared to $97.2 million (16.9% of revenue) for 2018 Q2.

Manufacturing gross margin for 2019 Q2 YTD, excluding the impact of IFRS 16, of $135.9 million (12.8% of revenue) decreased by $39.5 million, or 22.5% compared to $175.4 million (16.7% of revenue) for 2018 Q2 YTD.

The decreases as a percentage of revenue for both the 2019 Q2 and 2019 Q2 YTD periods are primarily caused by production inefficiencies within both the coach and transit bus businesses. These inefficiencies are due to learning curve related to the production of new products. Startup costs at the Company's KMG parts fabrication facility and higher remediation costs also contributed to the lower margins.

ADL experienced a $9.7 million loss to manufacturing gross margins for both 2019 Q2 and 2019 Q2 YTD, however, $7.9 million of this loss was due to the unwind of fair value adjustments related to the valuation of acquired assets.

Gross margins from Aftermarket operations in 2019 Q2, excluding the impact of IFRS 16, of $29.2 million (29.7% of revenue) increased by $1.6 million, or 5.8% compared to 2018 Q2 gross margins of $27.6 million (28.1% of revenue). The increase as a percentage of revenue is primarily due to favourable sales mix.

Gross margins from Aftermarket operations in 2019 Q2 YTD, excluding the impact of IFRS 16, of $54.8 million (28.7% of revenue) decreased by $1.2 million, or 2.1% compared to gross margins of $56.0 million (28.2 % of revenue) in 2018 Q2 YTD. The increase as a percentage of revenue is primarily due to favourable sales mix.

ADL contributed $3.9 million to Aftermarket gross margins for both 2019 Q2 and Q2 YTD. ADL's gross margins were negatively impacted by the unwinding of fair value adjustments related to the valuation of acquired assets by $0.8 million for both 2019 Q2 and 2019 Q2 YTD.

Earnings before Interest and Income Taxes ("EBIT") (Unaudited, U.S. dollars in millions)	**2019 Q2**	**2019 Q2 (excluding IFRS 16)**	**2018 Q2**	**2019 Q2 YTD**	**2019 Q2 YTD (excluding IFRS 16)**	**2018 Q2 YTD**
Manufacturing	$ 34.5	$ 34.5	$ 63.0	$ 65.5	$ 65.2	$ 104.6
Aftermarket	19.3	19.0	17.4	35.6	35.3	35.5
Corporate	(14.5)	$ (14.5)	$ (8.0)	(19.9)	(19.9)	(19.0)
Total EBIT	$ 39.3	$ 39.0	$ 72.4	$ 81.2	$ 80.6	$ 121.1
EBIT % of revenue						
Manufacturing	5.9%	5.9%	11.0%	6.2%	6.2%	9.9%
Aftermarket	19.2%	18.9%	17.7%	18.7%	18.5%	17.9%
Total	5.8%	5.7%	10.8%	6.5%	6.4%	9.7%

Consolidated EBIT, excluding the impact of IFRS 16, for 2019 Q2 decreased by $33.4 million, or 46.1% compared to 2018 Q2. In addition to the factors discussed within the gross margin analysis, higher SG&A expenses from acquisition related expenses of $13.3 million and additional SG&A expenses of $4.7 million related to ADL operations further contributed to the decrease. These amounts were partially offset by lower compensation expense as a result of lower incentive compensation accruals.

Consolidated EBIT, excluding the impact of IFRS 16, for 2019 Q2 YTD decreased by $40.5 million, or 33.4% compared to 2018 Q2 YTD. In addition to the factors discussed within the gross margin analysis, higher SG&A expenses from acquisition related expenses of $13.3 million and additional SG&A expenses of $4.7 million related to ADL operations further contributed to the increase. These amounts were partially offset by lower compensation expense as a result of lower incentive compensation accruals.

Net Earnings and Adjusted Net Earnings (Unaudited, U.S. dollars in millions)	**2019 Q2**	**2019 Q2 (excluding IFRS 16)**	**2018 Q2** (restated[1])	2019 Q2 YTD	2019 Q2 YTD (excluding IFRS 16)	2018 Q2 YTD (restated[1])
Manufacturing	$ 32.2	$ 33.4	$ 43.1	$ 50.6	$ 52.9	$ 70.1
Aftermarket	15.7	15.7	19.2	37.0	37.2	39.1
Corporate	(39.4)	(39.4)	(14.3)	(63.0)	(63.0)	(29.1)
Net earnings	$ 8.5	$ 9.7	$ 48.0	$ 24.6	$ 27.2	$ 80.1
Net earnings per share	$ 0.14	$ 0.16	$ 0.81	$ 0.40	$ 0.43	$ 1.29
Adjusted Net Earnings	$ 25.8	$ 26.9	$ 51.2	$ 41.5	$ 44.1	$ 87.7
Adjusted Net earnings per share	$ 0.42	$ 0.44	$ 0.83	$ 0.68	$ 0.72	$ 1.41

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

Net earnings during 2019 Q2, excluding the impact of IFRS 16, decreased by $38.3 million, or 79.8% compared to 2018 Q2.

In addition to the items noted within the revenues, gross margins, and EBIT analysis above, increased costs of financing of $18.6 million due to a $12.6 million mark-to-market loss on the interest rate swap in 2019 Q2; higher average revolver draws related to the $300 million borrowing to finance the ADL acquisition, resulting in an increase in interest on long-term debt of $2.8 million; interest related to leases capitalized under IFRS 16; and higher other banking charges contributed to the remaining increase in finance costs. The above costs are related to corporate activities.

Net earnings during 2019 Q2 YTD, excluding the impact of IFRS 16, decreased by $52.9 million, or 66.0% compared to 2018 Q2 YTD.

In addition to the items noted within the revenues, gross margins, and EBIT analysis above, increased costs of financing of $32.9 million due to a $22.1 million mark-to-market loss on the interest rate swap in 2019 Q2 YTD compared to a $2.0 million gain in 2018 Q2 YTD; higher average revolver draws resulting in an increase in interest on long-term debt of $4.0 million; interest related to leases capitalized under IFRS 16; and higher other banking charges contributed to the remaining increase in finance costs. The above costs are related to corporate activities.

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

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

Adjusted EBITDA (Unaudited, U.S. dollars in millions)	**2019 Q2**	**2019 Q2** (excluding IFRS 16)	**2018 Q2** (restated[1])	**2019 Q2 YTD**	**2019 Q2 YTD** (excluding IFRS 16)	**2018 Q2 YTD** (restated[1])
Manufacturing	$ 61.9	$ 59.3	$ 80.0	$ 108.9	$ 104.4	$ 142.1
Aftermarket	21.9	20.9	19.2	39.8	38.2	39.1
Corporate	(2.7)	(2.7)	(7.8)	(7.3)	(7.3)	(16.0)
	$ 81.1	$ 77.5	$ 91.4	$ 141.4	$ 135.3	$ 165.2
Net earnings per share	$ 0.14	$ 0.16	$ 0.81	$ 0.40	$ 0.43	$ 1.29
Adjusted EBITDA as a percent of revenue						
Manufacturing	10.6%	10.2%	13.9%	10.3%	9.9%	13.5%
Aftermarket	21.8%	20.8%	19.5%	20.8%	20.0%	19.7%
	11.9%	11.3%	13.6%	11.3%	10.8%	13.2%

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

Factors impacting the decrease in adjusted EBITDA have been discussed throughout the Revenue, Gross Margin, EBIT and Net earnings sections above including lower volumes, higher costs associated with new product production and related learning curves. The overall changes are noted below.

Manufacturing Adjusted EBITDA for 2019 Q2 decreased by $18.1 million, or 22.6% compared to 2018 Q2. Manufacturing Adjusted EBITDA for 2019 Q2 YTD decreased by $33.2 million, or 23.4% compared to 2018 Q2 YTD.

Adjusted EBITDA from Aftermarket operations in 2019 Q2 increased by $2.7 million, or 14.1% compared to 2018 Q2. Adjusted EBITDA from Aftermarket operations in 2019 Q2 YTD decreased by $0.9 million, or 2.3% compared to 2018 Q2 YTD.

The reduction in Corporate expenses resulted in an improvement of $5.1 million or 65.4% compared to 2018 Q2 and $8.7 million or 54.4% compared to 2018 Q2 YTD.

Free Cash Flow (Unaudited, dollars in millions)	**2019 Q2**	**2018 Q2**	**2019 Q2 YTD**	**2018 Q2 YTD**
Free Cash Flow (U.S. dollars)	$ 41.4	$ 47.8	$ 73.8	$ 88.5
Free Cash Flow (CAD dollars)	$ 54.2	$ 63.0	$ 97.5	$ 115.4
Declared dividends (CAD dollars)	$ 26.5	$ 23.6	$ 52.4	$ 44.1
Payout Ratio (Declared dividends divided by Free Cash Flow)	48.9%	37.5%	53.7%	38.2%

Free cash flow in 2019 Q2 of $41.4 million decreased by $6.4 million, or 13.4%, when compared to 2018 Q2, primarily due to lower net earnings as discussed above partially offset by the reduction in capital expenditures. The amount of dividends declared increased by 12.3% in 2019 Q2 compared to 2018 Q2 as a result of higher dividend per share rate partially offset by a lower number of Shares outstanding as a result of the purchase of Shares by Company under the Normal Course Issuer Bid ("NCIB") throughout 2018 Q3, 2018 Q4, and 2019 Q1.

The Company had no NCIB transactions in 2019 Q2.

The liquidity position of $202.2 million as at June 30, 2019 represents the amount available under the five-year senior unsecured, revolving credit facility (the"Credit Facility") as compared to a liquidity position of $355.4 million at December 30, 2018. The decrease in liquidity primarily relates to the acquisition of ADL, the repurchase of Shares under the NCIB, and changes in non-cash working capital. Changes in non-cash working capital are primarily a result of seasonality and delivery disruption previously discussed and are expected to be temporary in nature. Management believes these funds, together with Share issuances, other borrowings capacity and the cash generated from the Company's operating activities, will provide the Company with sufficient liquidity and capital resources to meet its current financial obligations as they come due, as well as provide funds for its financing requirements, capital expenditures, dividend payments and other operational needs for the foreseeable future.

Property, Plant and Equipment ("PPE") expenditures (Unaudited, U.S. dollars in millions)	**2019 Q2**	**2018 Q2**	**2019 YTD**	**2018 YTD**
PPE expenditures	12.1	25.1	20.3	42.0
Less PPE expenditures funded by leases	(1.8)	(6.3)	(3.0)	(11.4)
Cash acquisition of PPE reported on statement of cash flows	10.3	18.8	17.3	30.6

PPE cash expenditures for 2019 Q2 decreased by $8.5 million or 45.2% compared to 2018 Q2. Capital expenditures for 2019 are planned to be lower than in 2018 due to the completion of major projects.

Management believes that ROIC is an important ratio and metric that can be used to assess investments against their related earnings and capital utilization. ROIC during the 52-Weeks Ended June 30, 2019 ("2019 Q2 LTM"), excluding the impact of IFRS 16 was 12.1% as compared to 15.5% for the 52-Weeks Ended July 1, 2018. The decrease was primarily a result of material investments made by KMG's parts fabrication facility and renovations and expansion of New Flyer's Anniston, AL facility (which are not expected to generate benefits until the second half of 2019), higher inventory and lower Adjusted EBITDA as previously explained in this MD&A.

Return on Invested Capital (Unaudited, U.S. dollars in thousands)	**June 30, 2019**	**June 30, 2019** (Excluding IFRS 16)	**July 1, 2018**
Total assets	$ 2,909.2	$ 2,710.0	$ 2,037.7
Total long-term liabilities	1,442.2	1,321.0	805.1
ROIC LTM[1, 2]	11.2%	11.5%	15.5%

(1) Adjusted EBITDA and ROIC are not recognized earnings measures and do not have standardized meanings prescribed by IFRS. Therefore, Adjusted EBITDA and ROIC may not be comparable to similar measures presented by other issuers. See "Definitions of Adjusted EBITDA, ROIC, Free Cash, Adjusted Net Earnings and Adjusted Net Earnings per share" above. Management believes that Adjusted EBITDA and ROIC are useful supplemental measures in evaluating performance of NFI.

(2) The effective tax rate ("ETR") used in the ROIC calculation at June 30, 2019 was 31%. The ETR used in the ROIC calculation at July 1, 2018 was 31%.

Outlook

Management expects improvement in the award activity in the heavy-duty transit market as the Bid Universe (NFI's metric that attempts to reflect active public-sector competitions in Canada and the United States and to provide an overall indicator anticipated heavy-duty transit bus and motor coach market demand) has continued to grow. The private motor coach market in North America continued to decline, but management expects stronger second half private motor coach deliveries in 2019 when compared to the first half of the year. Overall, demand for low-floor cutaway and medium-duty buses is encouraging. The Company's transformative acquisition of ADL provides NFI with 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.

NFI is moving forward from a position of strength with a large multi-year backlog, a diverse product offering and proven relationships with the largest transit agencies and commercial operators in North America, the UK and APAC markets. Management believes the significant investments the Company has made in new product models, ZEBs, infrastructure solutions, facility upgrades and LEAN manufacturing processes, parts fabrication, and IT harmonization will permit NFI to enhance its competitiveness and maintain leadership positions in core markets.

Heavy-Duty Transit

Within North America, aging fleets, healthy economic conditions, multi-year U.S. federal funding and expected customer fleet replacement plans support management's expectation that heavy-duty transit bus procurement will remain healthy. Management's view is supported by a significant increase in active bids within its Bid Universe. Active bids increased by 22.7% from Q1 2019 and by 12.1% over Q2 2018, while the total Bid Universe of 24,846 EUs, increased by 1.3% from Q1 2019 and 12.2% from Q2 2018. This increase and ongoing discussions with public transit agencies continues to support management's belief that there will be an increase in the number of requests for proposals, public tenders and awards issued in Fiscal 2019 and 2020, when compared to 2018 activity.

The UK market is expected be flat in 2019, before growing in 2020, as large commercial operators and smaller regional players increase orders after several years of low activity. Management expects ADL will be a beneficiary of this increased demand as it protects and grows its industry leading market share in the UK.

Asia Pacific markets continue to vary by jurisdiction, as the highly cyclical Hong Kong heavy-duty transit market is coming off peak demand in 2017 and 2018 and moving to lower, but stable deliveries, which are expected to continue for several years. Management expects NFI will maintain its market leadership position for double deck vehicles in Hong Kong. Helping to offset some of the decline in Hong Kong activity was a significant contract win in Singapore and further penetration into the New Zealand market.

ZEBs continue to be an area of growing focus for New Flyer and ADL heavy-duty transit customers. ZEBs are currently being built in all New Flyer facilities, consisting of 4% of New Flyer's total backlog and representing a higher portion of the active bids New Flyer is currently pursuing. NFI is strengthening its leadership position in battery-electric vehicles within North America by being the only manufacturer to offer 35-foot, 40-foot, 45-foot, 60-foot and double deck battery electric vehicles and 45-and 60-foot fuel cell electric vehicles. NFI now has ZEB contracts with several major cities including: Toronto, Boston, Minneapolis, San Diego, New York, Seattle, Portland, Oakland, and Vancouver. New Flyer's ZEB vehicles that are currently in service have been performing well delivering clean, safe and reliable transportation on the proven Xcelsior platform. NFI also offers infrastructure support to transit agencies through New Flyer Infrastructure Solutions™, a service aimed at providing safe, reliable, smart and sustainable charging and mobility solutions to public transit customers. ADL's ZEB offering includes the UK's leading double deck battery-electric vehicle, which entered service into London during 2019 Q2, and single-deck battery-electric variants. ADL has received orders for ZEBs from the City of London, other regional cities in the UK and customers in New Zealand and North America. MCI is continuing the development and testing of its battery-electric motor coach and ARBOC has recently launched an electrification program for the Equess medium-duty bus.

Management believes its turn-key solution of high-quality vehicles, infrastructure advisory services and unmatched aftermarket support makes NFI the partner of choice for transit agencies who are exploring the addition of ZEBs to their fleet. In addition, the combination of NFI's EV expertise with ADL's global reach and existing partnerships is expected to generate long-term benefits as NFI strengthens its leadership position.

Motor Coach

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

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

Low-floor Cutaway and Medium-duty

Management anticipates continued growth in the low-floor cutaway and medium-duty bus markets, driven by changing population demographics, which could increase the demand for ARBOC's market leading products. While demand for low-floor cutaway vehicles remains strong, the chassis supply disruption experienced in 2019 Q1 for certain ARBOC vehicles significantly impacted ARBOC's first half production. While chassis are now being received regularly, ARBOC does not expect to recover anticipated the low-floor cutaway deliveries in 2019. To help alleviate future chassis supply disruption and to provide flexibility when choosing suppliers, ARBOC is actively testing several of its low-floor cutaway vehicles on Ford chassis. ARBOC continues to focus on its new medium-duty transit bus offerings, which generates a higher gross margin than it's 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 and competitive intensity. These initiatives include additional focus on vendor managed inventory ("VMI") programs, an enhanced product offering and capitalizing on the implementation of a common IT platform. In addition, NFI Parts is exploring absorbing the management and distribution of ARBOC and cutaway bus parts which management believes will provide an additional revenue stream. ADL's Parts business continues to focus on enhancing its online parts and services platform ("AD 24") which provides industry leading aftermarket support to customers in the UK. ADL Parts revenue is also expected to grow as ADL expands its installed base within the UK, North America, APAC and other new markets. 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.

2019 Delivery Guidance

Management has updated its Fiscal 2019 delivery guidance to 5,660 EUs to reflect the addition of ADL's anticipated 2019 deliveries for the period of May 28, 2019 to December 29, 2019. Management's new current guidance is expected to comprise the following vehicle types:

	Heavy Duty Transit (NF and ADL)	Motor Coach (MCI and Plaxton)	Medium-Duty and Cutaway (ARBOC)	Total
April 18, 2019 Guidance	2,845 EUs	990 EUs	425 EUs	4,260 EUs
ADL Guidance	1,250 EUs	150 EUs	-	1,400 EUs
Total Guidance	4,095 EUs	1,140 EUs	425 EUs	5,660 EUs

Management notes that ADL vehicle revenue and gross margins vary significantly by geographic region and product type and recommends that readers review the adjusted ADL historical Fiscal 2018 and Q1 and Q2 2019 financial information provided within this MD&A for further context on ADL's potential impact on NFI's Fiscal 2019 results. Management also cautions readers that the Company's annual delivery schedule has an element of seasonality due to the nature of each unique market segment and the varied annual production and vacation schedule of each production facility. With the addition of ADL, management now expects seasonality to become even more pronounced in the second half of 2019. Management has initiated a WIP reduction plan across NFI and management expects to see a reduction in WIP during the second half of 2019, with the majority of the recovery expected for the fourth quarter. Within NFI Parts, Management anticipates there to be typical quarterly volatility.

Based on expenditures made to date and anticipated expenditures in 2019 Q3 and 2019 Q4, management now expects Property, Plant and Equipment expenditures for NFI's legacy operations (being those operations prior to the acquisition of ADL) to be in the range of approximately $45 million to $50 million for Fiscal 2019, down from previous guidance of $50 million to $60 million. When ADL's expected capital expenditures are included the range is $50 million to $55 million. Management continues to anticipate that the Company's effective tax rate ("ETR") for Fiscal 2019 will be in the range of 29% to 31%, outside of one-time non-deductible impacts related to the acquisition of ADL which may temporarily raise the ETR.

Following the increase in leverage required to complete the acquisition of ADL, management is focused on deleveraging as it expects the Company's combined financial results will enable it to return to its target of 2.0x to 2.5x net debt to EBITDA within 18 to 24 months without impacting the Company's dividend policy. Management is focused on decreasing WIP, improving deliveries and moving past production challenges while continuing to generate significant positive free cash flow, generate returns for shareholders and realize upon investments made. Management cautions readers that there may continue to be some production challenges throughout 2019 that impact financial results, but that the impact should not be as large as what was experienced during the first half of 2019.

ADL Growth and Operational Opportunities

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

In addition to these operational initiatives, NFI is working closely with ADL's leadership team to explore new market growth opportunities while continuing to defend or expand market share in existing jurisdictions. ADL's 2018 contract win in Berlin is expected to provide meaningful financial benefit starting in 2021 and appears to be a platform for future European growth, while ADL's historic deliveries to Mexico provides a model for future growth in Latin America. NFI is also working with ADL on partnership opportunities with third parties that may provide manufacturing and improved sales opportunities.

Management believes ADL's operations have less exposure to the potential implications of the UK withdrawing from the European Union ("EU") (commonly referred to as "Brexit") than many of its peers within the automobile or specialty vehicle industries given it currently has minimal sales to other member states of the EU. While the outcome of Brexit remains unclear, with several possible scenarios, management is taking steps to mitigate potential risks including: diversifying its supplier base, identifying components that may be impacted by tariffs or may be delayed entry into the UK and building appropriate inventories, and continuing to use its hedging strategy.

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 (see footnotes on page 14).

Fiscal Period	Quarter	Revenue	Earnings from Operations	Net earnings	Adjusted EBITDA[(1)]	Earnings per Share
2019 - Actual						
	Q2	$ 683,353	37,000	8,507	81,122	0.14
	Q1	$ 566,995	$ 40,906	$ 16,149	$ 60,302	$ 0.26
	Total	**$ 1,250,348**	**$ 77,906**	**$ 24,656**	**$ 141,424**	**$ 0.40**
2019 - Excluding the impact of IFRS 16						
	Q2	$ 683,353	36,718	$ 9,687	$ 77,561	$ 0.15
	Q1	$ 566,995	40,543	$ 17,540	$ 57,837	$ 0.29
	Total	$ 1,250,348	$ 77,261	$ 27,227	$ 135,398	$ 0.44
2018	Q4	$ 662,020	60,570	$ 42,815	$ 79,868	$ 0.69
	Q3	605,342	53,469	37,031	70,245	0.59
	Q2	673,025	72,063	49,740	91,400	0.81
	Q1	578,634	51,753	30,356	73,841	0.48
	Total	**$ 2,519,021**	**$ 237,855**	**$ 159,942**	**$ 315,354**	**$ 2.56**
2017	Q4	654,560	71,495	76,118	90,488	1.21
	Q3	541,721	55,141	34,577	70,998	0.55
	Q2	613,430	70,363	42,769	85,090	0.69
	Q1	572,147	59,203	37,904	71,450	0.61
	Total	**$ 2,381,858**	**$ 256,202**	**$ 191,368**	**$ 318,026**	**$ 3.06**

(1) Adjusted EBITDA is not a recognized earnings measure and does not have standardized meanings prescribed by IFRS. Therefore, Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See “Definitions of Adjusted EBITDA, ROIC, Free Cash, Adjusted Net Earnings and Adjusted Net Earnings per share” above. Management believes that Adjusted EBITDA and ROIC are useful supplemental measures in evaluating performance of NFI.

COMPARISON OF SECOND QUARTER 2019 RESULTS

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

	2019 Q2	2018 Q2	2019 Q2 YTD	2018 Q2 YTD	52-weeks Ended June 30, 2019	52-Weeks Ended July 1, 2018
Statement of Earnings Data						
Revenue						
North America	$ 549,079	$ 574,590	$1,025,446	$1,053,169	$2,114,144	$2,070,374
United Kingdom and Europe	31,740	—	31,740	—	31,740	—
Asia Pacific	2,251	—	2,251	—	2,251	—
Other	—	—	—	—	—	—
Manufacturing operations	583,070	574,590	1,059,437	1,053,169	2,148,135	2,070,374
North America	92,312	98,435	182,940	198,490	361,604	377,566
United Kingdom and Europe	6,475	—	6,475	—	6,475	—
Asia Pacific	1,178	—	1,178	—	1,178	—
Other	318	—	318	—	318	—
Aftermarket operations	100,283	98,435	190,911	198,490	369,575	377,566
Total revenue	$ 683,353	$ 673,025	$1,250,348	$1,251,659	$2,517,710	$2,447,940
Earnings from operations	$ 37,000	$ 72,063	$ 77,906	$ 123,816	$ 191,945	$ 250,452
Earnings before interest and income taxes	39,343	72,420	81,204	121,066	198,483	248,423
Net earnings	8,507	49,740	24,656	80,096	104,503	190,791
Adjusted EBITDA[2]	$ 81,122	$ 91,400	$ 141,424	$ 165,241	$ 291,537	$ 326,727
Statement of Earnings Data, excluding IFRS 16						
Earnings from operations	$ 36,718	$ 72,063	77,261	123,816	191,300	$ 250,452
Earnings before interest and income taxes	39,061	72,420	80,559	121,066	197,838	248,423
Net earnings	9,688	49,740	27,227	80,096	107,074	190,791
Adjusted EBITDA[2]	77,561	91,400	135,398	165,241	285,511	326,727
Capital expenditures	$ 12,085	$ 25,100	$ 20,267	$ 42,045	$ 67,585	$ 83,577

(Footnotes on page 18)

RECONCILIATION OF NET EARNINGS TO ADJUSTED EBITDA

Management believes that Adjusted EBITDA is an important measure in evaluating the historical operating performance of the Company. However, Adjusted EBITDA is not a recognized earnings measure under IFRS and does not have a standardized meaning prescribed by IFRS. Accordingly, Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Readers of this MD&A are cautioned that Adjusted EBITDA should not be construed as an alternative to net earnings or loss determined in accordance with IFRS as indicators of the Company's performance, or cash flows from operating activities determined in accordance with IFRS as a measure of liquidity and cash flow. The Company defines and has computed Adjusted EBITDA as described under "Definitions of Adjusted EBITDA, ROIC and Free Cash Flow, Adjusted Net Earnings and Adjusted Earnings per Share" above. The following tables reconcile net earnings or losses and cash flow from operations to Adjusted EBITDA based on the historical Financial Statements of the Company for the periods indicated. See ADL Adjusted EBITDA reconciliation for information related to historical ADL performance on page 6.

(Unaudited, U.S. dollars in thousands)	2019 Q2	2018 Q2	2019 Q2 YTD	2018 Q2 YTD	52-Weeks Ended June 30, 2019	52-Weeks Ended July 1, 2018
Net earnings	8,507	49,740	24,656	80,096	104,502	190,791
Addback[1]						
Income taxes	5,869	16,333	13,524	30,873	33,362	39,401
Interest expense	24,967	6,347	43,024	10,097	60,619	18,231
Amortization	22,399	17,005	41,380	33,673	75,503	63,919
Loss (gain) on disposition of property, plant and equipment	15	45	(5)	31	231	81
Fair value adjustment for total return swap[7]	(800)	3,090	(756)	1,459	4,332	1,322
Unrealized foreign exchange loss (gain) on non-current monetary items and forward foreign exchange contracts	(2,358)	(402)	(3,293)	2,719	(4,631)	3,107
Costs associated with assessing strategic and corporate initiatives[4]	13,338	91	13,343	137	13,343	3,369
Past service costs[9]	—	672	—	6,482	—	6,482
Non-recurring recoveries relating to business acquisition[5]	—	—	—	—	—	(496)
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue[6]	8,690	—	8,690	266	8,690	532
Proportion of the total return swap realized[8]	430	(1,948)	377	(1,488)	(3,273)	(369)
Equity settled stock-based compensation	558	427	977	896	1,490	1,516
Recovery on currency transactions[13]	(4,287)	—	(4,287)	—	(4,287)	—
Prior year sales tax provision [14]	3,794	—	3,794	—	3,794	—
Release of provisions related to purchase accounting[11]	—	—	—	—	(2,138)	—
Gain on bargain purchase of subsidiary company	—	—	—	—	—	(1,159)
Adjusted EBITDA[2]	81,122	91,400	141,424	165,241	291,537	326,727
Adjusted EBITDA is comprised of:						
Manufacturing	$ 61,910	$ 80,003	$ 108,921	$ 142,127	$ 242,765	$ 280,780
Aftermarket	21,873	19,167	39,785	39,077	74,363	75,351
Corporate	(2,661)	(7,770)	(7,283)	(15,963)	(25,591)	(29,404)

See page 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 the Revolver under the Credit Facility to finance working capital and therefore has excluded the impact of working capital in calculating Free Cash Flow. As well, net cash generated by operating activities and net earnings are significantly affected by the volatility of current income taxes, which in turn produces temporary fluctuations in the determination of Free Cash Flow.

The following is a reconciliation of net cash generated by operating activities (an IFRS measure) to Free Cash Flow (a non-IFRS measure) based on the Company's historical Financial Statements. See "Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Earnings per Share".

(Unaudited, U.S. dollars in thousands, except per Share figures)	2019 Q2	2018 Q2	2019 Q2 YTD	2018 Q2 YTD	52-Weeks Ended June 30, 2019	52-Weeks Ended July 1, 2018
Net cash generated from operating activities	$ (30,444)	$ 48,704	$ (37,595)	$ 65,579	$ 71,970	$ 90,107
Changes in non-cash working capital items(3)	64,049	5,296	118,906	30,169	123,081	98,814
Interest paid(3)	10,274	5,937	18,621	11,153	30,541	20,375
Interest expense(3)	(12,072)	(6,012)	(20,561)	(11,357)	(32,750)	(21,146)
Income taxes paid(3)	15,069	28,190	19,391	46,148	46,325	97,658
Current income tax expense(3)	(13,824)	(17,858)	(23,401)	(32,770)	(46,894)	(65,004)
Principal portion of finance lease payments	(3,544)	(988)	(6,443)	(2,055)	(9,513)	(4,158)
Cash capital expenditures	(10,248)	(18,776)	(17,258)	(30,641)	(57,608)	(68,050)
Proceeds from disposition of property, plant and equipment	—	41	28	65	198	224
Costs associated with assessing strategic and corporate initiatives(7)	13,338	91	13,343	137	13,343	3,369
Non-recurring transitional costs relating to business acquisition(8)	—	—	—	—	—	(496)
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue (9)	8,690	—	8,690	266	8,690	532
Defined benefit funding(4)	1,744	6,509	3,149	15,722	9,668	21,689
Defined benefit expense(4)	(1,511)	(2,045)	(2,983)	(9,200)	(6,116)	(11,827)
Past service costs(11)	—	672	—	6,482	—	6,482
Proportion of the total return swap(10)	430	(1,948)	377	(1,488)	(3,273)	(369)
Recovery on currency transactions(13)	(4,287)	—	(4,287)	—	(4,287)	—
Prior year sales tax provision (14)	3,794	—	3,794	—	3,794	—
Gain on release of provision related to purchase accounting(12)	—	—	—	—	(2,138)	—
Foreign exchange gain (loss) on cash held in foreign currency(5)	(24)	(6)	18	273	(61)	393
Free Cash Flow (US$)(1)	$ 41,434	$ 47,807	$ 73,789	$ 88,483	$ 144,970	$ 168,593
U.S. exchange rate(2)	1.309	1.3168	1.321	1.3042	1.3283	1.2798
Free Cash Flow (C$)(1)	54,237	62,953	97,473	115,400	192,556	215,762
Free Cash Flow per Share (C$)(6)	0.8835	1.0216	1.5925	1.8526	3.0929	3.4463
Declared dividends on Shares (C$)	26,507	23,593	52,374	44,059	98,658	84,970
Declared dividends per Share (C$)(6)	$ 0.4318	$ 0.3892	$ 0.8557	$ 0.7073	$ 1.5846	$ 1.3629

(1) Free Cash Flow is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. Therefore, Free Cash Flow may not be comparable to similar measures presented by other issuers. See "Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Earnings per Share".

(2) U.S. exchange rate (C$ per US$) is the weighted average exchange rate applicable to dividends declared for the period.

(3) Changes in non-cash working capital are excluded from the calculation of Free Cash Flow as these temporary fluctuations are managed through the Revolver which is available to fund general corporate requirements, including working capital requirements, subject to

borrowing capacity restrictions. Changes in non-cash working capital are presented on the consolidated statements of cash flows net of interest and incomes taxes paid.

(4) The cash effect of the difference between the defined benefit expense and funding is included in the determination of cash from operating activities. This cash effect is excluded in the determination of Free Cash Flow as management believes that the defined benefit expense amount provides a more appropriate measure, as the defined benefit funding can be impacted by special payments to reduce the unfunded pension liability.

(5) Foreign exchange loss on cash held in foreign currency is excluded in the determination of cash from operating activities under IFRS; however, because it is a cash item, management believes it should be included in the calculation of Free Cash Flow.

(6) Per Share calculations for Free Cash Flow (C$) are determined by dividing Free Cash Flow by the total number of all issued and outstanding Shares using the weighted average over the period. The weighted average number of Shares outstanding for 2019 Q2 was 61,391,499 and 62,953,316 for 2018 Q2. The weighted average number of Shares outstanding for 2019 Q2 YTD and 2018 Q2 YTD are 61,206,109 and 62,953,316, respectively. The weighted average number of Shares outstanding for the 52-Weeks ended June 30, 2019 and July 1, 2018 are 62,258,729 and 62,605,734, respectively. Per Share calculations for declared dividends (C$) are determined by dividing the amount of declared dividends by the number of outstanding Shares at the respective period end date.

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

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

(9) The revaluation of ARBOC's inventory included an adjustment of $0.5 million of which $0.3 million negatively impacted the 52-week period ended July 1, 2018 and 2018 Q2 YTD net earnings. The revaluation of ADL's inventory included an adjustment of $8.7 million in 2019 Q2. 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 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

In 2019 Q2, management adopted an Adjusted Net Earnings and Adjusted Earnings per Share calculation to provide a measure of the Company's performance that is aligned with the Company's calculation of Adjusted EBITDA. Adjusted Net Earnings and Adjusted Earnings per Share are used to assess the overall financial performance of the Company. Adjusted Net Earnings and Adjusted Earnings per Share are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. Accordingly, Adjusted Net Earnings and Adjusted Earnings per Share may not be comparable to similar measures presented by other issuers. Readers of this MD&A are cautioned that Adjusted Net Earnings and Adjusted Earnings per Share should not be construed as an alternative to net earnings, or net earnings per Share, determined in accordance with IFRS as indicators of the Company's performance. The Company defines and has computed Adjusted Net Earnings and Adjusted Earnings per Share under "Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Earnings per Share" above. The following tables reconcile net earnings to Adjusted Net Earnings based on the historical Financial Statements of the Company for the periods indicated.

(Unaudited, U.S. dollars in thousands other than earnings per Share and Adjusted Earnings per Share)	**2019 Q2**	**2018 Q2**	**2019 Q2 YTD**	**2018 Q2 YTD**	**52-Weeks Ended June 30, 2019**	**52-Weeks Ended July 1, 2018**
Net earnings	$ 8,507	49,740	$ 24,656	$ 80,096	$ 104,502	$ 190,791
Net earnings, excluding IFRS 16	9,688	49,740	27,227	80,096	107,073	190,791
Adjustments, net of tax (10)						
Fair value adjustments of total return swap(7)	(518)	2,327	(488)	1,053	3,402	840
Unrealized foreign exchange (gain) loss	(1,492)	(303)	(2,127)	1,963	(3,013)	2,332
Portion of the total return swap realized(8)	279	(1,467)	243	(1,074)	(2,563)	(199)
Costs associated with assessing strategic and corporate initiatives(4)	13,340	69	13,343	99	13,343	2,606
Non recurring costs (recoveries) relating to business acquisition(5)	—	—	—	—	—	(397)
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue(6)	5,612	—	5,612	192	5,612	403
Equity settle stock-based compensation	347	322	631	647	997	1,103
Gain on disposition of property, plant and equipment	11	34	(3)	22	164	59
Gain on bargain purchase option	—	—	—	—	—	(727)
Past service costs(9)	—	506	—	4,680	—	4,680
Recovery on currency transactions(12)	(2,768)	—	(2,768)	—	(2,768)	—
Prior year sales tax provision (13)	2,450	—	2,450	—	2,450	—
Gain on release of provision related to purchase accounting(11)	—	—	—	—	(1,623)	—
Adjusted Net Earnings	25,768	51,228	41,549	87,678	120,503	201,491
Adjusted Net Earnings, excluding IFRS 16	$ 26,949	$ 51,228	$ 44,120	$ 87,678	$ 123,074	$ 201,491
Earnings per Share (basic)	$ 0.14	$ 0.81	$ 0.40	$ 1.29	$ 1.66	$ 3.05
Earnings per Share (fully diluted)	$ 0.14	$ 0.80	$ 0.40	$ 1.28	$ 1.69	$ 3.02
Adjusted Earnings per Share (basic)	$ 0.42	$ 0.83	$ 0.68	$ 1.41	$ 1.92	$ 3.22
Adjusted Earnings per Share (fully diluted)	$ 0.42	$ 0.82	$ 0.68	$ 1.40	$ 1.94	$ 3.19
Earnings per Share and Adjusted Earnings per Share, excluding IFRS 16						
Earnings per Share (basic)	$ 0.16	$ 0.81	$ 0.44	$ 1.29	$ 1.70	$ 3.05
Earnings per Share (fully diluted)	$ 0.16	$ 0.80	$ 0.44	$ 1.28	$ 1.72	$ 3.02
Adjusted Earnings per Share (basic)	$ 0.44	$ 0.83	$ 0.72	$ 1.41	$ 1.96	$ 3.22
Adjusted Earnings per Share (fully diluted)	$ 0.44	$ 0.82	$ 0.72	$ 1.40	$ 1.98	$ 3.19

1. Addback items are derived from the historical Financial Statements of the Company.

2. Adjusted EBITDA is not a recognized earnings measure and does not have standardized meaning prescribed by IFRS. Therefore, Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See “Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Net Earnings per Share” above. Management believes that Adjusted EBITDA is a useful supplemental measure in evaluating performance of the Company.
3. As a result of the Company’s multinational corporate structure, income taxes paid are subject to high degrees of volatility due to the mix of earnings within various jurisdictions and the timing of required installment payments.
4. Normalized to exclude non-recurring expenses related to the costs of assessing strategic and corporate initiatives.
5. Normalized to exclude non-recurring expenses associated with transitional costs related to acquired subsidiary companies.
6. The revaluation of ADL's inventory included an adjustment of $8.7 million or $5.6 million after- tax in 2019 Q2. ARBOC's inventory included an adjustment of $0.3 million or $0.2 million after-tax in 2018 Q2 YTD. These revaluation adjustments relate to purchase accounting as a result of the related acquisitions.
7. The fair value adjustment of the total return swap is a non-cash gain that is deducted from the definition of Adjusted EBITDA.
8. A portion of the gain from the fair value adjustment of the total return swap is added to Adjusted EBITDA to match the equivalent portion of the related deferred compensation expense recognized.
9. A new collective bargaining agreement at the Company's Winnipeg facility commenced on April 1, 2018 which included retroactive changes to New Flyer's Canadian defined benefit pension plan. The effect of the pension plan amendments was to increase the accrued benefit liability and the expected annual pension plan expense in Fiscal 2018 by $6.5 million to reflect pension benefits provided to employees for past service. In 2018 Q2, the Company completed an actuarial valuation which resulted in an adjustment of $0.7 million for past service costs.
10. The expected ETR in each respective quarterly period is used to calculate adjustments, net of tax.
11. During 2018 Q4 purchase accounting provisions recorded during the acquisition of MCI were deemed to be no longer needed and were released resulting in an increase to net earnings. The amounts released have been deducted in the calculation of Adjusted EBITDA.
12. Recovery of prior period banking fees related to foreign exchange transactions.
13. Provision for sales taxes as a result of an ongoing state tax review.

Capital Allocation Policy

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

Maintaining Financial Flexibility

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

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

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

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

There are certain financial covenants under the Credit Facility that have to be maintained. These financial covenants included an interest coverage ratio and a total leverage ratio. The maximum total leverage ratio under the Credit Facility is 3.75 and increases to 4.25 for one year following a material acquisition. The Credit Facility terms allow for relief from the impact of changes in accounting policies, including the impact of IFRS 16. At June 30, 2019, the Company was in compliance with the ratios.

	June 30, 2019	December 30, 2018
Total Leverage Ratio (must be less than 4.25 for one year following a material acquisition)	3.43	2.09
Interest Coverage Ratio (must be greater than 3.00)	11.57	13.39

Business Investment

The Company plans to invest in the current business for future growth and will continue to invest in lean manufacturing operations to improve quality and cost effectiveness. In addition, business acquisitions will be considered to further grow and diversify the business and to contribute to the long-term competitiveness and stability of the Company. Investment decisions are based on several criteria, including but not limited to: investment required to maintain or enhance operations; enhancement of cost effectiveness through vertical integration of critical supply and sub-assembly in-sourcing; and acquisitions in current or adjacent markets that are considered accretive to the business.

Return of Capital to Shareholders

The Company intends to have a Share dividend policy that is consistent with the Company`s financial performance and the desire to retain certain cash flows to support the ongoing requirements of the business and to provide the financial flexibility to pursue revenue diversification and growth opportunities.

The Company`s Free Cash Flow was C$54.2 million in 2019 Q2 compared to declared dividends of C$26.5 million during this period. For 2018 Q2, Free Cash Flow was C$63.0 million compared to declared dividends of C$23.6 million. This resulted in a payout ratio of 48.9% in 2019 Q2 compared to 37.5% 2018 Q2.

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

The Company had no NCIB transactions in 2019 Q2.

On June 11, 2018, the Company announced that the TSX had accepted a notice filed by the Company of its intention to implement the NCIB to repurchase its Shares through the facilities of the TSX and any alternative Canadian trading systems on which the Shares are traded. On January 17, 2019 the Company amended the NCIB. Pursuant to the amended NCIB, the Company 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 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 a new NCIB to replace the expired NCIB (the "New NCIB") to repurchase its Shares through the facilities of the TSX and any alternative Canadian trading systems on which the Shares are traded. The Company is permitted to repurchase for cancellation up to 5,357,914 Shares, representing approximately 10% of the outstanding public float of Shares on June 4, 2018. The Company is permitted to repurchase Shares commencing on June 17, 2019 up to June 16, 2020, or earlier should the Company complete its repurchases prior to such date.

The actual number of Shares to be purchased and the timing and pricing of any purchases under the New 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 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 NCIB or the New NCIB during 2019 Q2. During 2019 Q2 YTD, the Company repurchased 232,100 Shares at an average price of C$31.82 per Share for a total repurchase of C$7.4 million. The Company canceled 986,075 Shares during 2019 Q2 YTD, including 232,100 Share purchased in 2019 Q2 YTD and 753,975 Shares that were purchased in 2018 Q4.

Total Capital Distributions to Shareholders (U.S. dollars in millions)	**2019 Q2**	**2018 Q2**	**2019 Q2 YTD**	**2018 Q2 YTD**
Dividends paid	$ 19.3	$ 15.9	$ 36.1	$ 32.2
NCIB Share repurchase	—	8.2	5.7	8.2
Total	$ 19.3	$ 24.1	$ 41.8	$ 40.4

Results of Operations

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

(Unaudited, U.S. dollars in thousands)	**2019 Q2**	**2019 Q2 (excluding IFRS 16)**	**2018 Q2**	2019 Q2 YTD	2019 Q2 YTD (excluding IFRS 16)	2018 Q2 YTD
Manufacturing Revenue	583,070	583,070	574,590	1,059,437	1,059,437	1,053,169
Aftermarket Revenue	100,283	100,283	98,435	190,911	190,911	198,490
Total Revenue	$ 683,353	$ 683,353	$ 673,025	$ 1,250,348	$ 1,250,348	$ 1,251,659
Earnings from Operations	$ 37,000	$ 36,718	$ 72,063	$ 77,906	$ 77,261	$ 123,816
Earnings before interest and income taxes	39,343	39,061	72,420	81,204	80,559	121,066
Earnings before income tax expense	14,376	15,556	66,073	38,180	40,383	110,969
Net earnings for the period	8,507	9,687	49,740	24,656	27,226	80,096

Revenue

Manufacturing revenue for 2019 Q2 increased by $8.4 million, or 1.5% compared to 2018 Q2. The acquisition of ADL contributed $41.0 million to revenue during 2019 Q2. Also contributing to the increase were higher average selling prices within the North American transit bus business related to product mix. Partially offsetting this increase were lower volumes of 12.1% in the Company's legacy manufacturing businesses. Volumes were lower in each of transit bus, motor coach, and medium-duty products. The Company experienced production and delivery changes as a result of new product launches, ARBOC's chassis supply disruption, international external supply issues and missed production days due to weather. The result of these factors all lead to missed production and deliveries and growth in work-in-process and finished goods. As work-in-process is reduced to normal levels these sales are expected to be realized in future periods.

Manufacturing revenue for 2019 Q2 YTD increased by $6.3 million, or 0.6% compared to 2018 Q2 YTD. The acquisition of ADL contributed $41.0 million to revenue during 2019 Q2 YTD. Partially offsetting this increase were lower volumes of 9.6% in the Company's legacy manufacturing businesses. The lower volumes were impacted by the same factors noted above.

Revenue from Aftermarket operations in 2019 Q2 increased by $1.9 million, or 1.9% compared to 2018 Q2. The acquisition of ADL contributed $8.8 million to revenue during 2019 Q2. Partially offsetting this increase were lower sales volumes within the Company's legacy aftermarket business, excluding ADL's aftermarket business (the "legacy aftermarket" business) and pricing pressures. In 2018 Q2 Daimler canceled the DRA relating to the distribution of Daimler's Setra motor coaches. The cancellation of the DRA resulted in a $2 million decrease in Aftermarket parts revenue in 2019 Q2 compared to 2018 Q2.

Revenue from Aftermarket operations in 2019 Q2 YTD decreased by $7.6 million, or 3.8% compared to 2018 Q2 YTD. The decrease was primarily due to lower sales volumes in the legacy aftermarket business and pricing pressures. In 2018 Q2 Daimler cancelled the DRA in 2018 resulting in a $4 million decrease in aftermarket parts revenue in 2019 Q2 YTD compared to 2018 Q2 YTD. The decreases were partially offset by revenues related to the acquisition of ADL of $8.8 million during 2019 Q2 YTD.

Cost of sales

(Unaudited, U.S. dollars in thousands)	**2019 Q2**	**2019 Q2** (excluding impact of IFRS 16)	**2018 Q2**	2019 Q2 YTD	2019 Q2 YTD (excluding IFRS 16)	2018 Q2 YTD
Manufacturing						
Direct cost of sales	$ 443,341	$ 443,341	$ 424,196	$ 789,683	$ 789,683	$ 770,501
Depreciation and amortization	19,821	17,182	15,221	36,244	32,142	77,129
Other overhead	49,726	52,284	37,966	97,653	102,053	30,117
Manufacturing cost of sales	$ 512,888	$ 512,807	$ 477,383	$ 923,580	$ 923,878	$ 877,747
As percent of Manufacturing Sales	88.0%	87.9%	83.1%	87.2%	87.2%	83.3%
Aftermarket						
Direct cost of sales	$ 69,101	$ 69,101	$ 69,011	$ 132,260	$ 132,260	$ 138,901
Depreciation and amortization	2,579	1,940	1,781	5,136	3,858	3,555
Aftermarket cost of sales	$ 71,680	$ 71,041	$ 70,792	$ 137,396	$ 136,118	$ 142,456
As percent of Aftermarket Sales	71.5%	70.8%	71.9%	72.0%	71.3%	71.8%
Total Cost of Sales	$ 584,568	$ 583,848	$ 548,175	$ 1,060,976	$ 1,059,996	$ 1,020,203
As percent of Sales	85.5%	85.4%	81.4%	84.9%	84.8%	81.5%

The consolidated cost of sales, excluding the impact of IFRS 16, for 2019 Q2 increased by $35.7 million or 6.5% compared to 2018 Q2.

Cost of sales from Manufacturing operations in 2019 Q2, excluding the impact of IFRS 16, were $512.8 million (87.9% of manufacturing operations revenue) compared to $477.4 million (83.1% of Manufacturing operations revenue) in 2018 Q2, an increase of $35.4 million or 7.4%. Cost of sales increased as a percentage of revenue as a result of overhead inefficiency and higher labour costs for throughout the North America transit and coach businesses. The production of new products, and related production learning curves contributed to these increases. Additionally continued startup costs and related inefficiencies related to KMG's parts fabrication facility contribute to the higher cost of sales as a percentage of revenues.

Cost of sales from Manufacturing operations in 2019 Q2 YTD, excluding the impact of IFRS 16 were $923.9 million (87.2% of manufacturing operations revenue) compared to $877.7 million (83.3% of Manufacturing operations revenue) in 2018 Q2 YTD, an increase of $46.2 million or 5.3%. Cost of sales increased as a percentage of revenue as a result of increased for the same reasons noted in the comparison of 2019 Q2 to 2018 Q2.

Fair value adjustments realized into the statement of net earnings and total comprehensive income within Manufacturing operations were $7.8 million for 2019 Q2 and 2019 Q2 YTD.

Cost of sales from Aftermarket operations in 2019 Q2, excluding the impact of IFRS 16 were $71.0 million (70.8% of Aftermarket revenue) compared to $70.7 million (71.9% of Aftermarket revenue) in 2018 Q2, a decrease of $0.3 million.

Cost of sales from Aftermarket operations in 2019 Q2 YTD, excluding the impact of IFRS 16 were $136.1 million (71.3% of Aftermarket revenue) compared to $142.5 million (71.7% of Aftermarket revenue) in 2018 Q2 YTD, a decrease of $6.4 million. The difference is consistent with the lower revenues.

Fair value adjustments realized into the statement of net earnings and total comprehensive income within Aftermarket operations were $0.8 million for 2019 Q2 and 2019 Q2 YTD.

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

(Unaudited, U.S. dollars in thousands)	**2019 Q2**	**2019 Q2** (excluding impact of IFRS 16)	**2018 Q2**	2019 Q2 YTD	2019 Q2 YTD (excluding IFRS 16)	2018 Q2 YTD
Selling expenses	$ 5,490	$ 5,490	$ 4,421	$ 9,891	$ 9,891	$ 8,621
General and administrative expenses	43,371	44,373	46,287	88,358	89,984	91,417
Other costs	12,701	12,701	798	12,670	12,670	6,825
Total SG&A	$ 61,562	$ 62,564	$ 51,506	$ 110,919	$ 112,545	$ 106,863

The consolidated SG&A, excluding the impact of IFRS 16, for 2019 Q2 of $62.6 million (9.2% of consolidated revenue) increased by $11.1 million or 21.5% compared with $51.5 million (7.6% of consolidated revenue) in 2018 Q2. Other costs from acquisition related expenses of $12.2 million were the primary reason for the increase in overall SG&A expenses.

The consolidated SG&A, excluding the impact of IFRS 16, for 2019 Q2 YTD of $112.5 million (9.0% of consolidated revenue) increased by $5.7 million or 5.3% compared with $106.8 million (8.4% of consolidated revenue) in 2018 Q2 YTD. Other costs from acquisition related expenses of $13.3 million were the primary reason for the increase in overall SG&A expenses. These increases expenses were partially offset by past service cost adjustments of $6.5 million in 2018 Q2 YTD, which did not recur.

Realized foreign exchange loss/gain

During 2019 Q2, the Company recorded a realized foreign exchange loss of $0.2 million compared to a loss of $1.3 million in 2018 Q2.

During 2019 Q2 YTD, the Company recorded a realized foreign exchange loss of $0.5 million compared to a loss of $0.8 million in 2018 Q2 YTD.

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

Earnings from operations

Consolidated earnings from operations in 2019 Q2, excluding IFRS 16 were $37.0 million (5.4% of consolidated revenue) compared to $72.1 million (10.7% of consolidated revenue) in 2018 Q2, a decrease of $35.1 million or 48.7%.

Earnings from operations related to Manufacturing operations in 2019 Q2 were $17.4 million (3.0% of Manufacturing revenue) compared to $54.7 million (9.5% of manufacturing revenue) in 2018 Q2, a decrease of $37.0 million or 67.6%. Earnings from operations related to Manufacturing operations in 2019 Q2 YTD were $42.3 million (4.0% of Manufacturing revenue) compared to $88.3 million (8.4% of manufacturing revenue) in 2018 Q2 YTD, a decrease of $46.0 million or 52.1%. The decrease as a percentage of revenues is primarily due to the production inefficiencies described within the Cost of Sales section above.

Earnings from operations related to Aftermarket operations in 2019 Q2 YTD were $19.3 million (19.2% of Aftermarket revenue) compared to $17.4 million (17.7% of Aftermarket revenue), an increase of $1.9 million or 10.9%. Earnings from operations related to Aftermarket operations in 2019 Q2 YTD were $35.6 million (18.6% of Aftermarket revenue) compared to $35.5 million (17.9% of Aftermarket revenue), an increase of $0.1 million. The decrease as a percentage of revenues is primarily due to the production inefficiencies described within the Cost of Sales section above.

In addition, included in selling, general and administrative expenses are transaction costs relating to the acquisition of ADL totalling $13.3 million

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 Q2	2018 Q2	2019 Q2 YTD	2018 Q2 YTD
Unrealized (gain) loss on forward foreign exchanges contracts	$ (2,735)	$ (290)	$ (3,918)	$ 3,286
Unrealized (gain) loss on other long-term monetary assets/liabilities	377	(112)	624	(567)
	$ (2,358)	$ (402)	$ (3,294)	$ 2,719

At June 30, 2019, the Company had $218 million of foreign exchange forward contracts to buy currencies in which the Company operates with U.S. dollars, Canadian dollars, or GBP. The related asset of $2.0 million (December 30, 2018: $1.5 million liability) is recorded on the unaudited interim condensed consolidated statements of financial position as a current derivative financial instruments asset 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 Q2, the Company recorded EBIT of $39.3 million compared to EBIT of $72.4 million in 2018 Q2. IN 2019 Q2 YTD, the Company recorded EBIT of $81.2 million compared to EBIT of $121.1 million in 2018 Q2 YTD. EBIT has been impacted by non-cash and non-recurring items as follows:

(Unaudited, U.S. dollars in thousands)	2019 Q2	2018 Q2	2019 Q2 YTD	2018 Q2 YTD
Non-cash and non-recurring charges:				
Costs associated with assessing strategic and corporate initiatives	$ 13,338	$ 91	$ 13,343	$ 137
Unrealized foreign exchange (gain) loss	(2,358)	(402)	(3,294)	2,719
Equity settled stock-based compensation	558	427	977	896
Loss (gain) on disposition of property, plant and equipment	15	45	(5)	31
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue	8,690	—	8,690	266
Fair value adjustment of total return swap	(800)	3,090	(756)	1,459
Past service costs	—	672	—	6,482
Recovery on currency transactions	(4,287)	—	(4,287)	—
Prior year sales tax provision	3,794	—	3,794	—
Amortization	22,399	17,005	41,380	33,673
Total non-cash and non-recurring charges:	$ 41,349	$ 20,928	$ 59,842	$ 45,663

Interest and finance costs

The interest and finance costs for 2019 Q2 of $25.0 million increased by $18.6 million when compared 2018 Q2. The increase is primarily due to a $12.6 million loss on the interest rate swap in 2019 Q2. Higher average revolver draws as a result of the $300 million revolving credit facility entered into for the acquisition of ADL contributed to the increase in interest on long-term debt of $2.8 million. Interest related to leases capitalized under IFRS 16 and higher other banking charges contributed to the remaining increase.

The interest and finance costs for 2019 Q2 YTD of $43.0 million increased by $32.9 million when compared to 2018 Q2 YTD. The increase is primarily due to a $22.1 million loss on the interest rate swap in 2019 Q2 YTD compared to a gain of $2.1 million in 2018 Q2 YTD. Higher average revolver draws contributed to the increase in long-term debt of $2.8 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 on its cost of borrowing. The interest rate swap entered into fixes the interest rate which the Company will pay on $600 million of its long-term debt at 2.27% plus an applicable margin. The Company's accounting policy is to not designate these types of instruments as accounting hedges. As a result, interest rate increases will result in mark-to-market gains, while interest rate decreases will result in mark-to-market losses.

Earnings before income taxes (“EBT”)

EBT for 2019 Q2 of $14.3 million decreased by $51.8 million compared to EBT of $66.1 million in 2018 Q2. EBT for 2019 Q2 YTD of $38.2 million decreased by $72.8 million compared to EBT of $111.0 million in 2018 Q2 YTD. The primary drivers of the changes to EBT are addressed in the Earnings from Operations, EBIT, and Interest and finance costs sections above.

Income tax expense

The income tax expense for 2019 Q2 was $5.9 million compared to $16.3 million in 2018 Q2. The ETR for 2019 Q2 was 40.8% and the ETR for 2018 Q2 was 24.7%. The reduction in the overall income tax expense is primarily due to lower earnings before taxes. The increase in the ETR is predominantly due to non - deductible transaction costs pertaining to the acquisition of ADL.

The income tax expense for 2019 Q2 YTD was $13.5 million compared to $30.8 million in 2018 Q2 YTD. The ETR for 2019 Q2 YTD was 35.4% and the ETR for 2018 Q2 was 27.8%. The reduction in the overall income tax expense is primarily due to lower earnings before taxes. The increase in the ETR is predominantly due to non - deductible transaction costs pertaining to the acquisition of ADL.

Net earnings

The Company reported net earnings of $8.5 million in 2019 Q2, a decrease of 82.8% compared to net earnings of $49.7 million in 2018 Q2. The Company reported net earnings of $24.7 million in 2019 Q2 YTD, a decrease of 69.2% compared to net earnings of $80.1 million in 2018 Q2 YTD.

Net earnings (Unaudited U.S. dollars in millions)	**2019 Q2**	**2019 Q2 (excluding IFRS 16)**	**2018 Q2**	**2019 Q2 YTD**	**2019 Q2 YTD (excluding IFRS 16)**	**2018 Q2 YTD**
Earnings from operations	$ 37.0	$ 36.7	$ 72.1	$ 77.9	$ 77.3	$ 123.8
Non-cash gain (loss)	2.3	2.3	0.3	3.3	3.3	(2.8)
Interest expense	(25.0)	(23.5)	(6.4)	(43.0)	(40.2)	(10.1)
Income tax expense	(5.8)	(5.8)	(16.3)	(13.5)	(13.2)	(30.9)
Net earnings	$ 8.5	$ 9.7	$ 49.7	$ 24.7	$ 27.2	$ 80.1
Net earnings per Share (basic)	$ 0.14	$ 0.16	$ 0.81	$ 0.40	$ 0.44	$ 1.29
Net earnings per Share (fully diluted)	$ 0.14	$ 0.16	$ 0.80	$ 0.40	$ 0.44	$ 1.28

The Company's net earnings per Share in 2019 Q2 and 2019 Q2 YTD, excluding the impact of IFRS 16, of $0.16 and $0.44, respectively decreased from net earnings per Share of $0.81 and $1.29 generated in 2018 Q2 and 2018 Q2 YTD. Net earnings were lower in 2019 Q2 for the reasons discussed throughout the Results of Operation section in this MD&A, which decreased earnings per Share in 2019 Q2. Partially offsetting the impact of these decreases in net earnings per Share were lower weighted average common Shares as disclosed in note 8 to the Financial Statements.

Cash Flow

The cash flows of the Company are summarized as follows:

(Unaudited Quarterly Results, U.S. dollars in thousands)	**2019 Q2**	**2018 Q2**	**2019 Q2 YTD**	**2018 Q2 YTD**
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	$ 58,948	$ 88,127	$ 119,323	$ 153,049
Interest paid	(10,274)	(5,937)	(18,621)	(11,153)
Income taxes paid	(15,069)	(28,190)	(19,391)	(46,148)
Net cash earnings	33,605	54,000	81,311	95,748
Cash flow used in changes in working capital	(64,049)	(5,296)	(118,906)	(30,169)
Cash flow generated from operating activities	(30,444)	48,704	(37,595)	65,579
Cash flow from (used in) financing activities	381,784	(29,678)	394,715	(9,754)
Cash flow used in investing activities	(337,610)	(18,748)	(344,608)	(30,594)

Cash flows from operating activities

The 2019 Q2 net operating cash outflow of $30.4 million is comprised of $64.0 million of cash outflows related to changes in working capital, partially offset by $33.6 million of net cash earnings. Management anticipates the working capital to reverse during the year as it primarily relates to weather related deferred deliveries and temporary production issues. The 2018 Q2 net operating cash inflow of $48.7 million is comprised of $54.0 million of net cash earnings partially offset by cash used for working capital of $5.3 million.

The 2019 Q2 YTD net operating cash outflow of $37.6 million is comprised of $118.9 million outflows related to changes in working capital partially offset by net cash earnings of $81.3 million. Management anticipates that working capital will decline during the year as it primarily relates to weather related deferred deliveries and temporary production issues. The 2018 Q2 YTD net operating cash inflow of $65.6 million is comprised of $95.7 million of net cash earnings and a decrease in cash used for working capital of $30.2 million.

Cash flow from financing activities

The cash inflows of $381.8 million and 394.7 million during 2019 Q2 and 2019 Q2 YTD, respectively, related to proceeds from debt related for the acquisition of ADL, shares issued for the acquisition of ADL and dividends paid to shareholders.

Cash flow from investing activities

(Unaudited Quarterly Results, U.S. dollars in thousands)	2019 Q2	2018 Q2	2019 Q2 YTD	2018 Q2 YTD
Acquisition of intangible assets	$ —	$ (13)	(17)	$ (18)
Proceeds from disposition of property, plant and equipment	—	41	28	65
Net cash used in acquisitions	(327,361)	—	(327,361)	—
Acquisition of property, plant and equipment	(10,248)	(18,776)	(17,258)	(30,641)
Cash from investing activities	$ (337,609)	$ (18,748)	$ (344,608)	$ (30,594)

2019 Q2 investing activities have greater outflows than 2018 Q2 primarily due to the acquisition of ADL, partially offset by lower acquisition of Property, plant, and equipment. 2019 Q2 YTD investing activities have greater outflows for the same reasons noted above.

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 $15.5 million at 2019 Q2 (2018 Q4: $6.6 million asset) was recorded on the unaudited interim condensed consolidated statements of financial position as a derivative financial instruments liability and the change in fair value has been recorded as finance costs for the reported period. The loses incurred on the instrument are a result of interest rate reductions subsequent to entering into the transaction.

Credit risk

Financial instruments which potentially subject the Company to credit risk and concentrations of credit risk consist principally of cash, accounts receivable and derivatives. Management has assessed that the credit risk associated with accounts receivable is mitigated by the significant proportion of counterparties that are well established public transit authorities. Additionally, the U.S. federal government funds a substantial portion of U.S. public sector customer payments - up to 80% of the capital cost of new transit buses, coaches or cutaways, while the remaining 20% comes from state and municipal sources. There are a few U.S. public sector customers that obtain 100% of their funding from state and municipal sources. The maximum exposure to the risk of credit for accounts receivables corresponds to their book value. Historically, the Company has experienced nominal bad debts as a result of the customer base being principally comprised of municipal and other local transit authorities.

The purchase of new coaches, transit buses or cutaways by private fleet operators is paid from the operators' own capital budgets and funded by its own cash flow. A significant portion of private fleet operators choose to finance new coach purchases with lending organizations. In some cases MCI assists in arranging this financing, and in some cases it provides financing through its ultimate net loss pool. The Company has experienced a nominal amount of bad debts with its private sales customers as most transactions require payment on delivery.

The carrying amount of accounts receivable is reduced through the use of an allowance account and the amount of the loss is recognized in the earnings statement within SG&A. When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against SG&A in the unaudited interim condensed consolidated statements of net earnings and total comprehensive income.

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

	June 30, 2019	December 30, 2018
Current, including holdbacks	$ 397,327	$ 358,729
Past due amounts but not impaired		
1 – 60 days	24,051	24,153
Greater than 60 days	4,734	4,830
Less: allowance for doubtful accounts	(348)	(226)
Total accounts receivables, net	$ 425,764	$ 387,486

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

Commitments and Contractual Obligations

The following table describes the Company's maturity analysis of the undiscounted cash flows of certain non-current financial liabilities and leases as at June 30, 2019:

U.S. dollars in thousands	Total	2019	2020	2021	2022	2023	Post 2023
Leases	252,257	14,394	24,868	22,682	20,801	18,016	151,496
Accrued benefit liability	8,513	8,208	305	—	—	—	—
	$ 260,770	$ 22,602	$ 25,173	$ 22,682	$ 20,801	$ 18,016	$ 151,496

As at June 30, 2019, outstanding surety bonds guaranteed by the Company amounted to $445.1 million, representing an increase compared to $397.8 million at July 1, 2018. The estimated maturity dates of the surety bonds outstanding at June 30, 2019 range from July 2019 to October 2023. 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 June 30, 2019, letters of credit amounting to $66.7 million (December 30, 2018: $13.8 million) remained outstanding as security for the contractual obligations of the Company. $52.9 million of the outstanding letters of credit were held outside the Credit Facility.

The Company does not have any off-balance sheet arrangement or any material capital asset commitments at June 30, 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	(468,117)	—	(22,239)	—	March 26, 2021	C$10.20	C$1.55
December 30, 2013	612,050	(531,868)	(9,631)	(70,551)	—	December 30, 2021	C$10.57	C$1.44
December 28, 2014	499,984	(184,597)	(11,368)	(304,019)	—	December 28, 2022	C$13.45	C$1.83
December 28, 2015	221,888	(19,532)	—	(146,884)	55,472	December 28, 2023	C$26.75	C$4.21
September 8, 2016	2,171	—	—	(1,629)	542	September 8, 2024	C$42.83	C$8.06
January 3, 2017	151,419	(1,610)	(1,615)	(73,299)	74,895	January 3, 2025	C$40.84	C$7.74
January 2, 2018	152,833	—	(1,882)	(37,754)	113,197	January 2, 2026	C$54.00	C$9.53
January 2, 2019	284,674	—	(3,431)	—	281,243	January 2, 2017	C$33.43	C$5.01
	2,415,375	(1,205,724)	(27,927)	(656,375)	525,349		C$28.92	

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	284,674	C$33.43	152,833	C$54.00
Expired during the period	(6,928)	C$40.75	—	—
Exercised during the period	(42,328)	C$14.90	(185,860)	C$11.91
Balance at end of period	1,181,724	C$28.92	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 $169 thousand of director restricted Share units ("Director RSUs") in 2019 Q2. Of these Director RSUs issued, approximately $131 thousand were exercised and exchanged for 5,005 Shares.

Critical accounting estimates and judgments

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

New and amended standards adopted by the Company

IFRS 16 - Leases ("IFRS 16")

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

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

Lease assets formerly capitalized as fixed assets are transfered 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 liabilties
Opening balances at December 31, 2018	$ —	$ 247,943	$ 1,052	$ 19,087	$ 7,936	$ 366,517
Transition to IFRS 16	131,595	(27,319)	4,225	104,670	5,553	(1,722)
Adjusted December 31, 2018	$ 131,595	$ 220,624	$ 5,277	$ 123,757	$ 13,489	$ 364,795

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

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

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

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

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

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

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

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

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

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

Controls and Procedures

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining internal controls over financial reporting ("ICFR"), as defined under rules adopted by the Canadian Securities Administrators. ICFR were designed under the supervision of, and with the participation of, the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). The Company's ICFR are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes in accordance with IFRS.

On December 15, 2014, management adopted the "Internal Control – Integrated Framework 2013" ("COSO 2013") from the Committee of Sponsoring Organizations of the Treadway Commission, which replaces the previously issued COSO framework, COSO 1992. This new framework necessitated a re-evaluation of the controls that management relies upon to support its conclusions, as well as changes to the Company's testing programs.

Management, under the supervision of the CEO and CFO, evaluated the design and operational effectiveness of the Company's ICFR as of December 30, 2018 in accordance with the criteria established in COSO 2013, and concluded that the Company's ICFR are effective.

Management believes there have been no changes in the Company's ICFR during 2019 Q1 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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

Disclosure Controls

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

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

As permitted by securities legislation, for the period ended June 30, 2019, the Company's management has limited the scope of its design of the Company's disclosure controls and procedures and the Company's internal control over financial reporting to exclude controls, policies and procedures of ADL, which the Company acquired on May 28, 2019.

From the date of acquisition to June 30, 2019 and as at June 30, 2019, certain financial results and financial position of ADL are:

(Unaudited, U.S. dollars in millions)		2019 Q2
Revenue	$	49,841
Net earnings		(22,777)
Current assets		338,094
Non-current assets		349,462
Current liabilities		(217,011)
Non-current liabilities		(34,542)

Appendix A - Acquisition of ADL

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

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

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

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

	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	33,096	150,276	190,294	34,727	225,021
Accounts receivable	58,413	6,028	64,441	81,602		81,602
Prepaid expenses	8,243	641	8,884	11,250		11,250
Derivative financial instruments	3,972	(4,248)	(276)	(349)		(349)
Property, plant and equipment	18,256	3,563	21,819	27,629	7,875	35,504
Right-of-use assets	—	13,581	13,581	17,198		17,198
Accounts payable and accrued liabilities	(151,309)	12,045	(139,264)	(176,350)		(176,350)
Income taxes payable	(1,286)		(1,286)	(1,628)		(1,628)
Deferred revenues	6,189	(58,378)	(52,189)	(66,087)		(66,087)
Lease liability	(177)	(13,941)	(14,118)	(17,877)		(17,877)
Long-term debt	(45,000)	—	(45,000)	(56,984)		(56,984)
Provisions	(5,871)	—	(5,871)	(7,434)		(7,434)
Deferred tax liabilities	(1,211)	1,600	389	493	(8,161)	(7,668)
Net tangible assets acquired	7,399		1,386	1,757		36,198
Goodwill and intangible assets acquired						291,161

Alexander Dennis Limited

Unaudited Consolidated Statement of Earnings

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

As at December 30, 2018

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

Notes:

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

Unaudited Interim Condensed Consolidated Financial Statements of

NFI GROUP INC.

June 30, 2019

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NFI GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET EARNINGS AND TOTAL COMPREHENSIVE INCOME
For the 13-Weeks and 26-Weeks ended June 30, 2019 ("2019 Q2" and "2019 Q2 YTD", respectively) and 13-Weeks and 26-Weeks ended July 1, 2018 ("2018 Q2" and "2018 Q2 YTD", respectively)
(unaudited, in thousands of U.S. dollars except per share figures)

	2019 Q2	2018 Q2	2019 Q2 YTD	2018 Q2 YTD
Revenue (note 12)	$ 683,353	$ 673,025	$ 1,250,348	$ 1,251,659
Cost of sales (note 4)	584,568	548,176	1,060,976	1,020,203
Gross profit	98,785	124,849	189,372	231,456
Sales, general and administration costs and other operating expenses	61,562	51,506	110,919	106,863
Foreign exchange loss	223	1,280	547	777
Earnings from operations	37,000	72,063	77,906	123,816
Gain (loss) on disposition of property, plant and equipment	(15)	(45)	5	(31)
Unrealized foreign exchange gain (loss) on non-current monetary items	2,358	402	3,293	(2,719)
Earnings before interest and finance costs and income tax	39,343	72,420	81,204	121,066
Interest and finance costs				
Interest on long-term debt	8,197	5,373	14,766	9,964
Accretion in carrying value of long-term debt (note 7)	261	399	374	794
Interest expense on lease liability (note 2)	1,719	—	3,356	—
Other interest and bank charges	2,157	639	2,439	1,393
Fair market value loss (gain) on interest rate swap	12,633	(64)	22,089	(2,054)
	24,967	6,347	43,024	10,097
Earnings before income tax expense	14,376	66,073	38,180	110,969
Income tax expense (note 6)	5,869	16,333	13,524	30,873
Net earnings for the period	$ 8,507	$ 49,740	$ 24,656	$ 80,096
Other comprehensive income (loss)				
Actuarial income (loss) on defined benefit pension plan - this item will not be reclassified subsequently to profit or loss	$ (4,778)	$ 3,373	$ (8,679)	$ 5,435
Unrealized foreign exchange (losses) on translation of foreign operations	(2,057)	—	(2,057)	—
Total comprehensive income for the year	$ 1,672	$ 53,113	$ 13,920	$ 85,531
Net earnings per share (basic) (note 9)	$ 0.14	$ 0.81	$ 0.40	$ 1.30
Net earnings per share (diluted) (note 9)	$ 0.14	$ 0.80	$ 0.40	$ 1.29

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

NFI GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at June 30, 2019
(unaudited, in thousands of U.S. dollars)

		June 30, 2019		December 30, 2018
Assets				
Current				
Cash	$	23,350	$	10,820
Accounts receivable (note 3,11)		425,764		387,486
Income tax receivable		30,376		34,115
Inventories (note 4)		735,021		424,685
Derivative financial instruments (note 18 b,c)		2,778		—
Prepaid expenses and deposits		21,816		10,434
		1,239,105		867,540
Property, plant and equipment (note 2)		271,710		247,943
Right-of-use asset (note 2)		152,620		—
Derivative financial instruments (note 11 b,c)		—		6,592
Goodwill and intangible assets		1,226,843		951,010
Other long term assets (note 2,5)		18,970		1,052
	$	2,909,248	$	2,074,137
Liabilities				
Current				
Accounts payable and accrued liabilities (note 2)	$	500,822	$	366,517
Derivative financial instruments (note 11 b,c)		—		1,542
Current portion of long-term liabilities (note 15)		161,783		80,310
		662,605		448,369
Accrued benefit liability		17,234		5,265
Obligations under leases (note 2)		139,503		19,087
Deferred compensation obligation		4,018		4,979
Deferred revenue		15,021		10,443
Other long-term liabilities		—		1,008
Provisions (note 14)		68,502		64,946
Deferred tax liabilities		78,008		83,121
Derivative financial instruments (note 11 b,c)		15,498		—
Long-term debt (note 7)		1,104,400		639,432
	$	2,104,789	$	1,276,650
Commitments and contingencies (note 13)				
Shareholders' equity				
Share capital (note 8)		679,542		654,307
Stock option and restricted share unit reserve		6,414		5,796
Accumulated other comprehensive loss (note 2)		(17,442)		(6,706)
Treasury shares (note 8)		—		(8,835)
Retained earnings		135,945		152,925
	$	804,459	$	797,487
	$	2,909,248	$	2,074,137

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

NFI GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the period ended June 30, 2019

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

	Share Capital	Stock Option and Restricted Share Unit Reserve	Accumulated Other Comprehensive Loss	Treasury shares	Retained Earnings (Deficit)	Total Shareholders' Equity
Balance, December 31, 2017	**$ 665,602**	**$ 4,724**	**$ (9,876)**	**$ —**	**$ 107,379**	**$ 767,829**
Net earnings	—	—	—	—	80,096	80,096
Other comprehensive income	—	—	5,453	—	—	5,453
Dividends declared on common shares	—	—	—	—	(33,789)	(33,789)
Repurchase and cancellation of common shares	(2,288)	—	—	—	(5,890)	(8,178)
Change in share purchase commitment	—	—	—	(713)	(1,822)	(2,535)
Share-based compensation, net of deferred income taxes	—	1,097	—	—	—	1,097
Shares issued	2,316	(756)	—	—	—	1,560
Balance, July 1, 2018	**665,630**	**5,065**	**(4,423)**	**(713)**	**145,974**	**811,533**
Net earnings	—	—	—	—	79,846	79,846
Other comprehensive income	—	—	(2,283)	—	—	(2,283)
Dividends declared on common shares	—	—	—	—	(34,857)	(34,857)
Repurchase and cancellation of common shares	(11,685)	—	—	—	(26,344)	(38,029)
Change in share purchase commitment	—	—	—	(8,122)	(11,694)	(19,816)
Share-based compensation, net of deferred income taxes	—	964	—	—	—	964
Shares issued	362	(233)	—	—	—	129
Balance, December 30, 2018	**$ 654,307**	**$ 5,796**	**$ (6,706)**	**$ (8,835)**	**$ 152,925**	**$ 797,487**
Net earnings	**—**	**—**	**—**	**—**	**24,656**	**24,656**
Other comprehensive income	**—**	**—**	**(10,736)**	**—**	**—**	**(10,736)**
Dividends declared on common shares	**—**	**—**	**—**	**—**	**(39,607)**	**(39,607)**
Repurchase and cancellation of common shares	**(10,451)**	**—**	**—**	**8,835**	**(2,029)**	**(3,645)**
Share-based compensation, net of deferred income taxes	**—**	**933**	**—**	**—**	**—**	**933**
Shares issued	**35,686**	**(315)**	**—**	**—**	**—**	**35,371**
Balance, June 30, 2019	**$ 679,542**	**$ 6,414**	**$ (17,442)**	**$ —**	**$ 135,945**	**$ 804,459**

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

NFI GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the 13-Weeks and 26-Weeks Ended June 30, 2019 ("2019 Q2" and "2019 Q2 YTD", respectively) and the 13-Weeks and 26-Weeks Ended July 1, 2018 ("2018 Q2" and "2018 Q2 YTD", respectively)

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

	2019 Q2	2018 Q2	2019 Q2 YTD	2018 Q2 YTD
Operating activities				
Net earnings for the period	$ 8,507	$ 49,740	$ 24,656	$ 80,096
Income tax expense	5,869	16,333	13,524	30,873
Depreciation of plant and equipment	14,410	7,858	25,364	14,926
Amortization of intangible assets	7,989	9,147	16,016	18,747
Share-based compensation	558	427	977	896
Interest and finance costs recognized in profit or loss	24,967	6,347	43,024	10,097
Fair value adjustment for total return swap	(800)	3,090	(756)	1,459
Unrealized foreign exchange loss (gain) on non-current monetary items	(2,358)	(402)	(3,293)	2,719
Foreign exchange gain on cash held in foreign currency	24	6	(18)	(273)
Loss (gain) on disposition of property, plant and equipment	15	45	(5)	31
Defined benefit expense	1,511	2,045	2,983	9,200
Defined benefit funding	(1,744)	(6,509)	(3,149)	(15,722)
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	58,948	88,127	119,323	153,049
Changes in non-cash working capital items (note 10)	(64,049)	(5,296)	(118,906)	(30,169)
Cash generated from operating activities before interest and income taxes paid	(5,101)	82,831	417	122,880
Interest paid	(10,274)	(5,937)	(18,621)	(11,153)
Income taxes paid	(15,069)	(28,190)	(19,391)	(46,148)
Net cash generated from operating activities	(30,444)	48,704	(37,595)	65,579
Financing activities				
Debt issue costs	(1,093)	—	(1,106)	—
Repayment of obligations under leases	(3,544)	(988)	(6,443)	(2,055)
Proceeds from long-term debt	370,516	(5,200)	408,716	32,100
Share issuance	35,262	1,560	35,371	1,560
Repayment of other long-term liabilities	—	(1,000)	—	(1,000)
Repurchase of shares	—	(8,178)	(5,682)	(8,178)
Dividends paid	(19,357)	(15,872)	(36,141)	(32,181)
Net cash used in financing activities	381,784	(29,678)	394,715	(9,754)
Investing activities				
Acquisition of intangible assets	—	(13)	(17)	(18)
Proceeds from disposition of property, plant and equipment	—	41	28	65
Net cash used in acquisitions	(327,361)	—	(327,361)	—
Acquisition of property, plant and equipment	(10,248)	(18,776)	(17,258)	(30,641)
Net cash used in investing activities	(337,609)	(18,748)	(344,608)	(30,594)
Effect of foreign exchange rate on cash	(24)	(6)	18	273
Increase (decrease) in cash	13,707	272	12,530	25,504
(Bank indebtedness) cash — beginning of period	9,643	15,294	10,820	(9,938)
Cash (Bank indebtedness) — end of period	$ 23,350	$ 15,566	$ 23,350	$ 15,566

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

1. CORPORATE INFORMATION

NFI Group Inc. ("NFI" or the "Company") was incorporated on June 16, 2005 as New Flyer Industries Inc. under the laws of the Province of Ontario. The name of the Company was changed to "NFI Group Inc." on May 14, 2018 to better reflect the multi-platform nature of the Company's business. NFI is a leading independent global bus manufacturer providing a comprehensive suite of mass transportation solutions under brands: New Flyer® (heavy-duty transit buses), Alexander Dennis Limited (single and double-deck buses), Plaxton (motor coaches), MCI® (motor coaches), ARBOC® (low-floor cutaway and medium-duty buses) and NFI Parts™ (aftermarket parts sales). The Company's common shares (the "Shares") are listed on the Toronto Stock Exchange ("TSX") under the symbol "NFI".

These unaudited interim condensed consolidated financial statements (the "Statements") were approved by the Company's board of directors (the "Board") on August 13, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Statement of Compliance

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

2.2 Basis of Presentation

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

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

2.3 Principles of consolidation

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

2.4 New and amended standards adopted by the Company

<u>IFRS 16 - Leases ("IFRS 16")</u>

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

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

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

Lease assets formerly capitalized as fixed assets are transfered 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 liabilties
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.

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

2.5 Fiscal Periods

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

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

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

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

2.7 Acquisition of ADL

On May 28, 2019 (the “Acquisition Date”), the Company through its wholly owned subsidiary NFI International Limited, acquired 100% of the voting equity interest in Alexander Dennis Limited ("ADL") for £295.1 million ($373.7 million). ADL is an independent bus and coach manufacturer and a global producer of double deck buses. The purchase price was funded through NFI’s existing credit facility, a new US$300 million credit facility and the issuance from treasury of 1.47 million Shares, in lieu of cash, to ADL’s primary shareholders. The Company has included within its consideration £3.4 million ($4.3 million) placed in escrow and £1.5 million ($1.9 million), of contingent consideration which will be released or paid, respectively to the seller once certain post-closing conditions are met. The acquisition has been accounted for using the acquisition method. The fair values of the identifiable assets and liabilities acquired have been based on management’s best estimates and valuation techniques as at the Acquisition Date.

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

	British Pound Sterling ("GBP")	Opening Balance Sheet US Dollar £1 = US$1.2663
Cash and contingent consideration	267,578	338,834
NFI shares issued	27,552	34,888
Purchase price	295,130	373,723
Cash acquired	36,614	46,364
Net purchase price	258,516	327,359
Net assets acquired		
Inventories	177,700	225,021
Accounts receivable	64,441	81,602
Prepaid expenses and deposits	8,884	11,250
Derivative financial instruments	(276)	(349)
Property, plant and equipment	28,038	35,504
Right-of-use assets	13,581	17,198
Accounts payable and accrued liabilities	(139,264)	(176,350)
Income tax payable	(1,286)	(1,628)
Deferred revenue	(52,189)	(66,087)
Obligations under leases	(14,118)	(17,877)
Long-term debt	(45,000)	(56,984)
Provisions	(5,871)	(7,434)
Deferred tax liabilities	(6,056)	(7,668)
Net tangible assets acquired		36,198
Goodwill and intangible assets acquired		291,161

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 June 30, 2019 the analysis of identified intangible assets and fair values is incomplete, as such all of the difference between the purchase consideration and the assets acquired and liabilities assumed has been allocated to goodwill and intangible assets. The estimated purchase price allocation 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.

During the 32 days between the Acquisition Date and June 30, 2019, ADL produced revenues of approximately $49.8 million and net loss of $22.8 million, which have been recorded in the unaudited consolidated statements of net earnings and total comprehensive income for Q2 2019. If ADL had been acquired on December 31, 2018 the incremental consolidated pro-forma revenue and income for the 26-week period ending June 30, 2019 would have been as follows:

	Results as stated	**Incremental**	**Pro-forma results**
Revenue	$ 1,250,348	$ 278,434	$ 1,528,782
Net earnings	24,656	157	24,813

3. ACCOUNTS RECEIVABLE

	June 30, 2019	December 30, 2018
Trade, net of allowance for doubtful accounts	$ 392,126	$ 358,441
Other	33,638	29,045
	$ 425,764	$ 387,486

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

4. INVENTORIES

	June 30, 2019	December 30, 2018
Raw materials	$ 306,763	$ 213,117
Work in process	281,081	150,654
Finished goods	147,177	60,914
	$ 735,021	$ 424,685

	2019 Q2	2018 Q2	2019 Q2 YTD	2018 Q2 YTD
Cost of inventories recognized as expense and included in cost of sales	$ 582,190	$ 531,055	$ 1,051,821	$ 990,268
Write-down of inventory to net realizable value in cost of sales	1,048	1,806	2,760	3,756
Reversals of a previous write-down in inventory	—	652	—	2,306

5. OTHER LONG-TERM ASSETS

	June 30, 2019	December 30, 2018
Long-term restricted deposit (note 13b)	$ 14,490	$ —
Long-term accounts receivable	4,480	1,052
	$ 18,970	$ 1,052

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

6. INCOME TAX EXPENSE

The income tax expense for 2019 Q2 was $5.9 million compared to $16.3 million in 2018 Q2. The reduction in the overall income tax expense is primarily due to lower earnings before taxes. The Effective Tax Rate ("ETR") for 2019 Q2 was 40.8% and the ETR for 2018 Q2 was 24.7%. The increase in the ETR is predominantly due to non - deductible transaction costs pertaining to the acquisition of ADL.

The income tax expense for 2019 Q2 YTD was $13.5 million compared to $30.9 million in 2018 Q2 YTD. The reduction in the overall income tax expense is primarily due to lower earnings before taxes. The ETR for 2019 Q2 YTD was 35.4% and the ETR for 2018 Q2 was 27.8%. The increase in the ETR is predominantly due to non - deductible transaction costs pertaining to the acquisition of ADL.

7. LONG-TERM DEBT

	Face Value	Unamortized Transaction Costs	Net Book Value June 30, 2019	Net Book Value December 30, 2018
Revolving Credit Facility, Unsecured (“2018 Revolver”)	807,300	1,955	805,345	639,432
Revolving million Credit Facility, Unsecured ("Acquisition Revolver")	300,000	945	299,055	—
	1,107,300	2,900	1,104,400	639,432

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

In May 2019, NFI entered into a $300 million revolving credit facility to fund the acquisition of ADL. The terms of the Acquisition Revolver are principally the same as those of the syndicated credit facility, maturing in October 2023.

The unsecured Credit Facility has a total borrowing limit of $1.0 billion, which includes a $100 million letter-of-credit facility and a $250 million accordion feature. $13.8 million of outstanding letters-of-credit were drawn against the credit facility at June 30, 2019. There are $52.9 million of letters-of-credit drawn outside of the credit facility. The Credit Facility bears interest at a rate equal to LIBOR or a U.S. base rate for loans denominated in U.S. dollars and a Canadian prime rate or bankers' acceptance rate for loans denominated in Canadian dollars, plus an applicable margin to those rates and matures on October 25, 2023. Amounts drawn under the Credit Facility bear interest at a rate equal to LIBOR or a U.S. base rate for loans denominated in U.S. dollars and a Canadian prime rate or bankers' acceptance rate for loans denominated in Canadian dollars, plus an applicable margin to those rates.

On August 6, 2019 NFI amended its senior unsecured, revolving credit facility (the "New Credit Facility") with a total borrowing limit of $1.25 billion, which includes a $150 million letter of credit facility. The New Credit Facility replaces the existing secured Credit Facility and the Acquisition Revolver. The New Credit Facility includes a $250 million accordion feature.

8. SHARE CAPITAL

	June 30, 2019	December 30, 2018
Authorized - Unlimited		
Issued - 62,370,419 Common Shares (December 30, 2018: 61,832,625)	$ 679,542	$ 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 a Normal Course Issuer Bid ("NCIB") to repurchase its Shares through the facilities of the TSX and any alternative Canadian trading systems on which the Shares are traded. On January 17, 2019 the Company amended the NCIB. Pursuant to the amended NCIB, the Company 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 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 NCIB ("New NCIB") to replace the expired 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 New 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 New 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 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 Share purchased in 2019 Q1 and 753,975 Shares that were purchased in 2018 Q4. There were no shares purchased or canceled under the NCIB during 2019 Q2.

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	41	550
Restricted share units exercised	10	248
Issuance of Shares	1,472	34,888
Repurchase and cancellation of Shares	(986)	(10,451)
Balance - June 30, 2019	62,370	$ 679,542

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

9. EARNINGS PER SHARE

	2019 Q2	2018 Q2	2019 Q2 YTD	2018 Q2 YTD
Net earnings attributable to equity holders	$ 8,507	$ 49,740	$ 24,656	$ 80,096
Weighted average number of Shares in issue	61,391,499	61,621,912	61,206,109	62,289,992
Add: net incremental Shares from assumed conversion of stock options and exercise of restricted share units	297,437	480,565	284,546	494,445
Weighted average number of Shares for diluted earnings per Share	61,688,936	62,102,477	61,490,655	62,784,437
Net earnings per Share (basic)	$ 0.1386	$ 0.8072	$ 0.4028	$ 1.2859
Net earnings per Share (diluted)	$ 0.1379	$ 0.8009	$ 0.4010	$ 1.2757

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.

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.

10. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	2019 Q2	2018 Q2	2019 Q2 YTD	2018 Q2 YTD
Accounts receivable	$ 5,674	$ 10,034	$ 43,354	$ 10,987
Income tax receivable	(2,592)	(9,634)	2,110	(5,545)
Inventories	(30,657)	12,528	(99,816)	(46,810)
Prepaid expenses and deposits	(57)	(355)	(133)	867
Accounts payable and accrued liabilities	(17,453)	(8,065)	(38,291)	31,634
Income tax payable	—	—	—	(7,328)
Deferred revenue	(10,926)	(16,533)	7,528	(9,296)
Provisions	(5,482)	(725)	(5,551)	(3,069)
Long-term restricted deposit	798	—	(13,692)	—
Other	(3,354)	7,454	(14,415)	(1,609)
	$ (64,049)	$ (5,296)	$ (118,906)	$ (30,169)

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Financial Instruments

The Company has made the following classifications:

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

(b) Fair value measurement of financial instruments

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

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

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

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

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

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

	June 30, 2019		
	Fair value level	Carrying amount	Fair value
Financial assets recorded at fair value			
Cash	Level 1	$ 23,350	$ 23,350
Long term restricted cash	Level 1	$ 14,490	$ 14,490
Total return swap contracts	Level 2	751	751
Foreign exchange forward contracts	Level 2	2,027	2,027
Derivative financial instrument assets		$ 2,778	$ 2,778
Financial liabilities recorded at fair value			
Interest rate swap	Level 2	$ 15,498	$ 15,498
Derivative financial instrument liabilities - long term		$ 15,498	$ 15,498

(c) Risk Management

The Company uses derivative financial instruments including interest rate swaps, total return swaps and forward foreign exchange contracts. These instrument 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.

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

The Company entered into a total return swap transaction to hedge the exposure associated with increases in its share value on a portion of the outstanding performance share units, restricted share units, and deferred share units. The total return swap has a re-investment feature which increases the number of Shares in the swap when dividends are paid by the Company. As at June 30, 2019 the Company held a position of 226,812 Shares at a weighted average price of C$32.86. The Company does not apply hedge accounting to these derivative instruments and as such, gains and losses arising from marking these derivatives to market are recognized in net earnings in the period in which they arise.

At June 30, 2019, the Company had $218 million of foreign exchange forward contracts to buy currencies in which the Company operates with U.S. dollars, Canadian dollars, or GBP. The related asset of $2.0 million (December 30, 2018: $1.5 million liability) is recorded on the unaudited interim condensed consolidated statements of financial position as a current derivative financial instruments asset 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.

(d) Liquidity Management

The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At June 30, 2019, the Company had a cash balance of $23,350 (December 30, 2018: cash of $10,820), the $807,300 under the 2018 Revolver due in 2023 (December 30, 2018: $641,600 Revolver) $300 million Acquisition Revolver for the acquisition of ADL and $66,738 of outstanding letters of credit (December 31, 2018: $13,769). $52,956 of the letters of credit were outside of the Credit Facility and are fully collateralized. The unsecured Credit Facility has a total borrowing limit of $1.0 billion, which includes a $100 million letter-of-credit facility and a $250 million accordion feature.

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

The following table outlines the maturity analysis of the undiscounted cash flows of certain non-financial liabilities and leases as at June 30, 2019:

US dollars in thousands	Total	2019	2020	2021	2022	2023	Post 2023
Leases	252,257	14,394	24,868	22,682	20,801	18,016	151,496
Accrued benefit liability	8,513	8,208	305	—	—	—	—
	$ 260,770	$ 22,602	$ 25,173	$ 22,682	$ 20,801	$ 18,016	$ 151,496

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, in the United States, up to 80% of the capital cost of new transit buses and coaches sold to public transit authorities and municipalities typically come from the U.S. Federal Transit Administration, while the remaining 20% comes from state and municipal sources. The maximum exposure to the risk of credit for accounts receivable corresponds to their book value. Historically, the Company has experienced nominal bad debts as a result of the customer base being principally comprised of municipal and other local transit authorities. During 2019 Q2, the Company recorded a bad debt expense of $54.

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":

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

	June 30, 2019	December 30, 2018
Current, including holdbacks	$ 397,327	$ 358,729
Past due amounts but not impaired		
1 – 60 days	24,051	24,153
Greater than 60 days	4,734	4,830
Less: Allowance for doubtful accounts	(348)	(226)
Total accounts receivables, net	$ 425,764	$ 387,486

As at June 30, 2019, there was no amount that would otherwise be past due or impaired whose terms have been renegotiated.

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

There are certain financial covenants under the Credit Facility that must be maintained. These financial covenants include an interest coverage ratio and total leverage ratio. At June 30, 2019, the Company was in compliance with the ratios. The results of the financial covenants tests as of such date are as follows:

	June 30, 2019 (excluding IFRS 16)	December 30, 2018
Total Leverage Ratio (must be less than 4.25)	3.43	2.09
Interest Coverage Ratio (must be greater than 3.00)	11.57	13.39

Under the Credit Facility and the Acquisition 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 Credit Facility and the Acquisition Facility terms provides relief for changes in accounting requirements.

(e) Capital management

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

There are certain financial covenants under the Credit Facility and the Acquisition Facility that must be maintained. These financial covenants include an interest coverage ratio and total leverage ratio. At June 30, 2019, the Company was in compliance with the ratios.

12. SEGMENT INFORMATION

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

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

The Manufacturing Operations segment has recorded vendor rebates of $2,035 (2018: $1,985), 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 parts for transit buses and motor coaches.

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.

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

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

Segment information about profits and assets is as follows:

	2019 Q2			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 583,070	$ 100,283	—	$ 683,353
Operating costs and expenses	561,641	81,189	26,147	668,977
Earnings (loss) before income tax expense	21,429	19,094	(26,147)	14,376
Total assets	2,223,273	447,650	238,325	2,909,248
Addition of capital expenditures	9,954	294	—	10,248
Addition of goodwill and intangibles assets	294,852	—	—	294,852
Goodwill	599,656	131,474	—	731,130

	2019 Q2 YTD			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 1,059,437	$ 190,911	—	$ 1,250,348
Operating costs and expenses	1,006,035	156,464	49,669	1,212,168
Earnings (loss) before income tax expense	53,402	34,447	(49,669)	38,180
Total assets	2,223,273	447,650	238,325	2,909,248
Addition of capital expenditures	16,822	436	—	17,258
Addition of goodwill and intangibles assets	294,869	—	—	294,869
Goodwill	599,656	131,474	—	731,130

Goodwill has been provisionally allocated to Manufacturing operations as at June 30, 2019. An allocation to Aftermarket operations will be made in future periods.

	2018 Q2			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 574,590	$ 98,435	—	673,025
Operating costs and expenses	511,598	81,034	14,320	606,952
Earnings (loss) before income tax expense	62,992	17,401	(14,320)	66,073
Total assets	1,370,006	399,104	268,619	2,037,729
Addition of capital expenditures	18,150	626	—	18,776
Addition of goodwill and intangibles assets	13	0	—	13
Goodwill	304,804	131,474	—	436,278

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

	2018 Q2 YTD			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 1,053,169	$ 198,490	—	$ 1,251,659
Operating costs and expenses	948,635	162,959	29,096	1,140,690
Earnings (loss) before income tax expense	104,534	35,531	(29,096)	110,969
				0
Total assets	1,370,006	399,104	268,619	2,037,729
Addition of capital expenditures	29,007	1,634	—	30,641
Addition of goodwill and intangibles assets	18	—	—	18
Goodwill	304,804	131,474	—	436,278

The Company's revenue by geography is summarized below:

	2019 Q2	2018 Q2	2019 Q2 YTD	2018 Q2 YTD
North America	$ 549,079	$ 574,590	$ 1,025,446	$ 1,053,169
UK and Europe	31,740	—	31,740	—
Asia Pacific	2,251	—	2,251	—
Total	$ 583,070	$ 574,590	$ 1,059,437	$ 1,053,169

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

	2019 Q2	2018 Q2	2019 Q2 YTD	2018 Q2 YTD
Transit buses	440,545	$ 397,073	$ 823,471	$ 754,963
Motor coaches	119,449	150,656	193,584	248,306
Medium-duty and cutaway buses	10,608	10,275	17,872	21,324
Pre-owned coach	10,843	11,698	20,851	19,831
Fiberglass reinforced polymer components	1,625	4,888	3,659	8,745
Manufacturing revenue	$ 583,070	$ 574,590	$ 1,059,437	$ 1,053,169

13. COMMITMENTS AND CONTINGENCIES

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

The Company's guarantee under each bond issued by the surety companies expires on completion of obligations under the customer contract to which the bond relates. The estimated maturity dates of the surety bonds outstanding at June 30, 2019 range from July 2019 to October 2023.

At June 30, 2019, outstanding surety bonds guaranteed by the Company totaled $445,111 (December 30. 2018: $394,428). The Company has not recorded any liability under these guarantees, as management believes that no material events of default exist under any contracts with customers.

(b) The Company has a letter of credit sub-facility of $100,000 as part of the Credit Facility (December 30, 2018: $100,000). As at June 30, 2019, letters of credit totaling $66,738 (December 30, 2018: $13,769) remain outstanding as security for contractual obligations of the Company. Of these letters of credit $52,956 (note 7) are outside of the Credit Facility and are fully collateralized.

As at June 30, 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.

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

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

	Insurance Risk Retention	Warranty	Total
December 30, 2018	$ 24,504	76,280	100,784
Assumed as a result of business acquisitions	—	7,452	7,452
Additions	4,262	20,868	25,130
Amounts used/realized	(2,359)	(20,051)	(22,410)
Unused warranty provision	—	(8,439)	(8,439)
Unwinding of discount and effect of changes in the discount rate	—	15	15
Exchange rate differences	—	157	157
	$ 26,407	$ 76,282	$ 102,689
Less current portion	3,000	31,187	34,187
June 30, 2019	$ 23,407	$ 45,095	$ 68,502

15. CURRENT PORTION OF LONG TERM LIABILITIES

	June 30, 2019	December 30, 2018
Deferred revenue	$ 100,926	$ 31,859
Provisions (note 14)	34,187	35,838
Other long-term liabilities	882	—
Deferred compensation obligation	3,175	4,677
Obligations under leases (note 2)	22,613	7,936
	$ 161,783	$ 80,310