Financial Results Fiscal 2019

March 11, 2020

NOTES TO READERS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS AND 52-WEEKS ENDED DECEMBER 29, 2019

Information in this Management's Discussion and Analysis ("MD&A") relating to the financial condition and results of operations of NFI Group Inc. ("NFI") is supplemental to, and should be read in conjunction with, NFI's audited consolidated financial statements (including notes) (the "Financial Statements") for the 52-week period ended December 29, 2019. This MD&A contains forward-looking statements, which are subject to a variety of factors that could cause actual results to differ materially from those contemplated by the forward-looking statements. See "Forward-looking Statements" in Appendix B. Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the factors described in the public filings of NFI available on SEDAR at www.sedar.com. The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and, except where otherwise indicated, are presented in U.S. dollars, which is the functional currency of NFI. Unless otherwise indicated, the financial information contained in this MD&A has been prepared in accordance with IFRS and references to "$" or "dollars" mean U.S. dollars.

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

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

Buses manufactured by New Flyer and ADL's single and double deck buses are classified as "transit buses". ARBOC manufactures body on-chassis or "cutaway" and "medium-duty" buses that service transit, paratransit, and shuttle applications. Collectively, transit buses, medium-duty buses and cutaways, are referred to as "buses". A "motor coach" or "coach" is a 35-foot to 45-foot over-the-highway bus typically used for intercity transportation and travel over longer distances than heavy-duty transit buses, and is typically characterized by (i) one or two axles in the rear (related to the weight of the vehicle), (ii) high deck floor, (iii) baggage compartment under the floor, (iv) high-backed seats with a coach-style interior (often including a lavatory and underfloor baggage compartments), and (v) no room for standing passengers. "Product lines" include heavy-duty transit, motor coach, pre-owned coach and cutaway and medium-duty. All of the data presented in this MD&A with respect to the number of transit buses, medium-duty buses, cutaways and motor coaches in service and delivered, is measured in, or based on, "equivalent units". One equivalent unit (or "EU") represents one production slot, being one 30-foot, 35-foot, 40-foot, 45-foot heavy-duty transit bus, one double deck bus, one medium-duty bus, one cutaway bus or one motor coach, whereas one articulated transit bus represents two equivalent units. An articulated transit bus is an extra-long transit bus (approximately 60-feet in length), composed of two passenger compartments connected by a joint mechanism. The joint mechanism allows the vehicle to bend when the bus turns a corner, yet have a continuous interior.

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

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

- To utilize the modified retrospective approach to adopting the standard, accordingly comparative information for 2018 has not been restated
- To utilize the definition of a lease under International Accounting Standard 17 to identify contracts that are, or contain, leases
- To exclude the recognition of the right-of-use asset and lease liability for leases with a term of twelve months or less
- To exclude the recognition of the right-of-use asset and lease liability for leases and of low-value assets and to value the right-of-use asset as equal to the lease liability, adjusting for related amounts prepaid or accrued

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

DEMONSTRATING OUR RESILIENCY

Fellow shareholders,

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

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

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

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

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

Paul Soubry
President & Chief Executive Officer
NFI Group Inc.

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

A LEADING INDEPENDENT GLOBAL BUS AND COACH MANUFACTURER

NFI GROUP

NEW FLYER

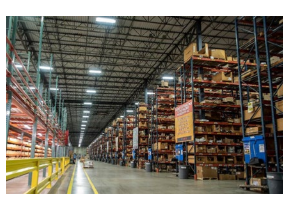
MCI

ARBOC

ALEXANDER DENNIS

PLAXTON

nfi.parts



FY 2019 Highlights (US$)

$2.9 billion
Revenue

5,315
EUs delivered

$322 million
Adjusted EBITDA

$160 million
Free Cash Flow

$1.65
Adjusted Net Earnings per Share

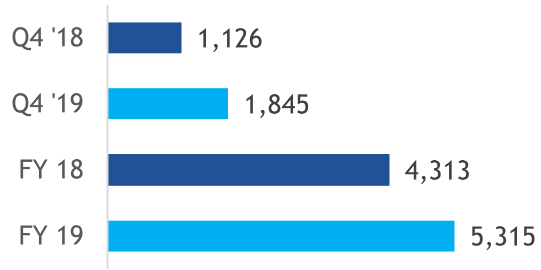
$5.2 billion
Ending Backlog of 10,742 EUs

105,000
Vehicles in Service

9,300
Team Members

KEY PERFORMANCE INDICATORS

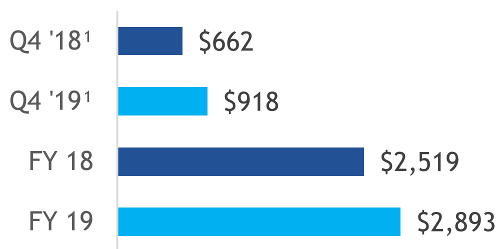
Deliveries (EUs)



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

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

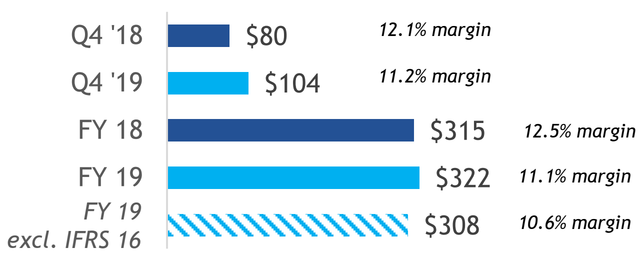
Revenue



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

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

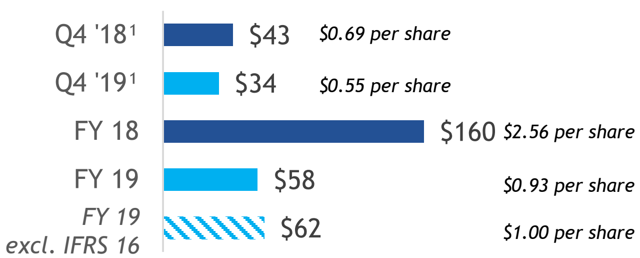
Adjusted EBITDA [2]



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

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

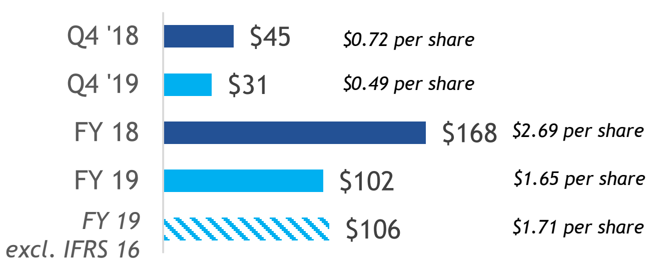
Net Earnings



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

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

Adjusted Net Earnings [2]



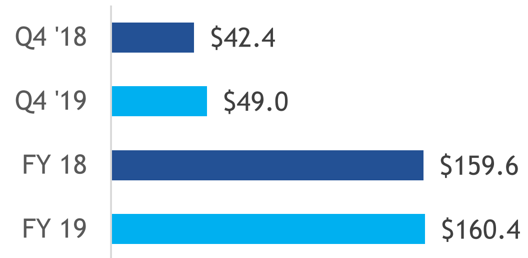
Fourth quarter Adjusted net earnings decreased by 31%. The decrease was driven by the items noted above for net earnings as well as the adjustment for a $4 million gain on interest rate swap in 2019 Q4, compared to the adjustment of a $2 million loss in 2018 Q4.

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

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

KEY PERFORMANCE INDICATORS

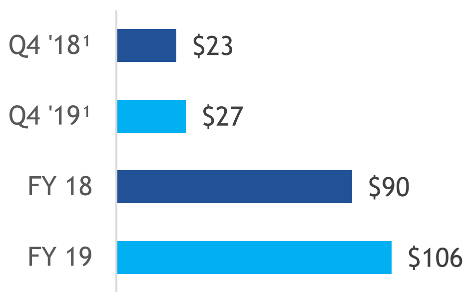
Free Cash Flow [2]



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

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

Declared Dividends ($CAD)

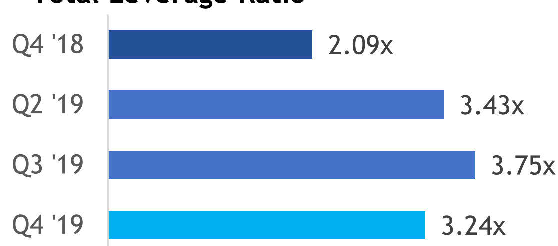


2019 Q4 declared dividends increased by 16% as a result of the Board of Directors approving a 13% increase in the dividend per Share rate in March 2019 partially offset by a lower number of Shares outstanding as a result of the purchases of Shares by the Company under its the Normal Course Issuer Bid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

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

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

Total Leverage Ratio



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

Backlog (EUs)

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

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

ROIC[2]

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

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

2019 Q4 HIGHLIGHTS

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

The Company continued to pay its quarterly dividend of C$0.425 per share (annual rate of C$1.70 per share) resulting in a payout ratio for Fiscal 2019 of 50%. The board of directors of NFI (the “Board") expects to maintain dividends at this rate on a quarterly basis, although such dividends are not assured. The Board will consider potential dividend increases as total leverage is decreased as per the ADL acquisition plan.

Other significant events during the quarter included:

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

1,159
2019 Q4 New Orders

0.51x
Leverage reduced to 3.24x

$263M
WIP decrease of $32M

85%
Book-to-Bill

18%
YoY North American Bid Universe Growth

RECORD DELIVERIES AND REVENUE

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

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

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

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

SEGMENT PERFORMANCE

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

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

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

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

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

2020 OUTLOOK

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

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

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

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

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

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

2020 OUTLOOK

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

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

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

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

Manufacturing

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

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

ZEBs are expected to continue to grow and be a larger percentage of New Flyer and ADL vehicle deliveries. NFI is the only manufacturer in North America to offer 35-foot, 40-foot, 45-foot, 60-foot and double deck battery electric vehicles and 40-and 60-foot fuel cell electric vehicles. NFI has ZEB contracts with some of the largest transit agencies in North America, with many vehicles in operation delivering clean, safe and reliable

2020 OUTLOOK

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

While overall motor coach deliveries in North America declined by 10% in 2019, and are expected to decline again in 2020, management expects that the Company can continue to gain market share, which was up 1.3% in 2019, from its expanded product portfolio. Management anticipates competitive factors will place increased pressure on margins in the North American coach market during 2020 and potentially into 2021. ADL's coach manufacturing business, Plaxton (which builds coach bodies on third-party chassis), is primarily focused on the UK market which is a very small component of the segment. MCI and Plaxton closely monitor pre-owned coach valuations and ensure that products obtained through trades are accurately reflected at their fair market value on the Company's balance sheet. Management believes the overall demand for low-floor cutaway and medium-duty buses remains encouraging, driven by changing population demographics, which could increase the demand for ARBOC's market leading products. Management does not anticipate any chassis related supply disruptions in 2020 for its low-floor cutaway vehicles. ARBOC is also focused on its medium-duty transit bus offerings, which generates a higher gross margin than its low-floor cutaway vehicles and has been very well received by numerous public and private customers.

Aftermarket

NFI Parts continues to focus on numerous strategic initiatives to counter adverse market pressures, a decreasing installed base of NFI vehicles, from the expected retirement of NABI and Orion buses, and increasing competitive intensity. These initiatives include additional focus on vendor managed inventory ("VMI") programs, an enhanced product offering and capitalizing on the implementation of a common IT platform. In 2020, NFI parts is looking to expand sales of ARBOC and cutaway spare parts and is exploring North American co-operation with ADL parts.

ADL's Parts business continues to focus on enhancing its online parts and services platform AD 24, which provides industry leading aftermarket support to customers in the UK. Management expects ADL Aftermarket revenue to grow as ADL expands its installed base. Due to the nature of the parts business, parts sales remain difficult to forecast resulting in quarter-to-quarter volatility which at times can be material.

SELECTED QUARTERLY AND ANNUAL FINANCIAL AND OPERATING INFORMATION

The following selected unaudited interim condensed consolidated financial and operating information of the Company has been derived from and should be read in conjunction with the historical Financial Statements of the Company.

Fiscal Period	Quarter	Revenue	Earnings from Operations	Net earnings (loss)	Adjusted EBITDA(1)	Earnings (loss) per Share
2019 - Actual						
	Q4	$ 917,741	$ 69,958	$ 34,127	$ 103,875	$ 0.55
	Q3	725,347	25,200	(1,085)	76,868	(0.02)
	Q2	683,353	37,000	8,507	81,122	0.14
	Q1	566,995	40,906	16,149	60,302	0.26
	Total	**$ 2,893,436**	**$ 173,064**	**$ 57,698**	**$ 322,167**	**$ 0.93**
2019 - Excluding the impact of IFRS 16						
	Q4	$ 917,741	$ 70,023	$ 35,767	$ 99,952	$ 0.57
	Q3	725,347	23,766	(985)	72,663	(0.02)
	Q2	683,353	36,718	9,687	77,561	0.15
	Q1	566,995	40,543	17,540	57,837	0.30
	Total	**$ 2,893,436**	**$ 171,050**	**$ 62,009**	**$ 308,013**	**$ 1.00**
2018	Q4	$ 662,020	$ 60,570	$ 42,815	$ 79,868	$ 0.69
	Q3	605,342	53,469	37,031	70,245	0.59
	Q2	673,025	72,063	49,740	91,400	0.81
	Q1	578,634	51,753	30,356	73,841	0.48
	Total	**$ 2,519,021**	**$ 237,855**	**$ 159,942**	**$ 315,354**	**$ 2.56**
2017	Q4	$ 654,560	$ 71,495	$ 76,118	$ 90,488	$ 1.21
	Q3	541,721	55,141	34,577	70,998	0.55
	Q2	613,430	70,363	42,769	85,090	0.69
	Q1	572,147	59,203	37,904	71,450	0.61
	Total	**$ 2,381,858**	**$ 256,202**	**$ 191,368**	**$ 318,026**	**$ 3.06**

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

COMPARISON OF FOURTH QUARTER 2019 RESULTS

(Unaudited, U.S. dollars in thousands)

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

(Footnotes on page 16 and 17)

RECONCILIATION OF NET EARNINGS TO ADJUSTED EBITDA

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

(Unaudited, U.S. dollars in thousands)

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

See page 16 and 17 for footnotes.

SUMMARY OF FREE CASH FLOW

Management uses Free Cash Flow as a non-IFRS measure to evaluate the Company's operating performance and liquidity and to assess the Company's ability to pay dividends on the Shares, service debt, and meet other payment obligations.

The Company generates its Free Cash Flow from operations and management expects this will continue to be the case for the foreseeable future. Net cash flows generated from operating activities are significantly impacted by changes in non-cash working capital. The Company uses its unsecured revolving credit facility "Credit Facility" to finance working capital and therefore has excluded the impact of working capital in calculating Free Cash Flow. As well, net cash generated by operating activities and net earnings are significantly affected by the volatility of current income taxes, which in turn produces temporary fluctuations in the determination of Free Cash Flow.

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

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

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

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

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

(3) Changes in non-cash working capital are excluded from the calculation of Free Cash Flow as these temporary fluctuations are managed through the Credit Facility which is available to fund general corporate requirements, including working capital requirements, subject to borrowing capacity restrictions. Changes in non-cash working capital are presented on the consolidated statements of cash flows net of interest and incomes taxes paid.

(4) The cash effect of the difference between the defined benefit expense and funding is included in the determination of cash from operating activities. This cash effect is excluded in the determination of Free Cash Flow as management believes that the defined

benefit expense amount provides a more appropriate measure, as the defined benefit funding can be impacted by special payments to reduce the unfunded pension liability.

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

(6) Per Share calculations for Free Cash Flow (C$) are determined by dividing Free Cash Flow by the total number of all issued and outstanding Shares using the weighted average over the period. The weighted average number of Shares outstanding for 2019 Q4 was 62,434,520 and 62,192409 for 2018 Q4. The weighted average number of Shares outstanding for Fiscal 2019 and Fiscal 2018 are 61,809,479 and 62,396,962 respectively. Per Share calculations for declared dividends (C$) are determined by dividing the amount of declared dividends by the number of outstanding Shares at the respective period end date.

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

(8) Normalized to exclude non-recurring restructuring costs.

(9) The revaluation of ARBOC's inventory included an adjustment of $0.5 million of which $0.3 million negatively impacted 2018 YTD net earnings. The revaluation of ADL's inventory included an adjustment of $2.2 million in 2019 Q4 and $31.0 million in Fiscal 2019. These revaluation adjustments relate to purchase accounting as a result of the related acquisitions.

(10) A portion of the fair value adjustment of the total return swap is added to Free Cash Flow to match the equivalent portion of the related deferred compensation expense recognized.

(11) A new collective bargaining agreement at the Company's Winnipeg facility commenced on April 1, 2018 which included retroactive changes to New Flyer's Canadian defined benefit pension plan. The effect of the pension plan amendments was to increase the accrued benefit liability and the expected annual pension plan expense in Fiscal 2018 by $6.5 million to reflect pension benefits provided to employees for past service. In 2018 Q2, the Company completed an actuarial valuation related to the past service costs which resulted in an adjustment of $0.7 million.

(12) During the fourth quarter of 2018, purchase accounting provisions recorded during the acquisition of MCI were deemed to be no longer needed and were released resulting in an increase to net earnings. The amounts released have been deducted in the calculation of Free Cash Flow.

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

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

RECONCILIATION OF NET EARNINGS TO ADJUSTED NET EARNINGS

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

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

1. Addback items are derived from the historical Financial Statements of the Company.
2. Adjusted EBITDA is not a recognized earnings measure and does not have standardized meaning prescribed by IFRS. Therefore, Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See "Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Net Earnings per Share" in Appendix B. Management believes that Adjusted EBITDA is a useful supplemental measure in evaluating performance of the Company.
3. As a result of the Company's multinational corporate structure, income taxes paid are subject to high degrees of volatility due to the mix of earnings within various jurisdictions and the timing of required installment payments.
4. Normalized to exclude non-recurring expenses related to the costs of assessing strategic and corporate initiatives.

5. Normalized to exclude non-recurring restructuring costs.
6. The revaluation of ADL's inventory included an adjustment of $2.2 million in 2019 Q4 after-tax value of $(0.5) million and $31.0 million in Fiscal 2019 after-tax value of $16.7 million. ARBOC's inventory included an adjustment of $0.3 million or $0.2 million after-tax in 2018 Q2. These revaluation adjustments relate to purchase accounting as a result of the related acquisitions.
7. The fair value adjustment of the total return swap is a non-cash gain that is deducted from the definition of Adjusted EBITDA.
8. A portion of the gain from the fair value adjustment of the total return swap is added to Adjusted EBITDA to match the equivalent portion of the related deferred compensation expense recognized.
9. A new collective bargaining agreement at the Company's Winnipeg facility commenced on April 1, 2018 which included retroactive changes to New Flyer's Canadian defined benefit pension plan. The effect of the pension plan amendments was to increase the accrued benefit liability and the expected annual pension plan expense in Fiscal 2018 by $6.5 million to reflect pension benefits provided to employees for past service. In 2018 Q2, the Company completed an actuarial valuation which resulted in an adjustment of $0.7 million for past service costs.
10. The expected ETR normalized for the acquisition of ADL, in each respective quarterly period is used to calculate adjustments, net of tax.
11. During 2018 Q4 purchase accounting provisions recorded during the acquisition of MCI were deemed to be no longer needed and were released resulting in an increase to net earnings. The amounts released have been deducted in the calculation of Adjusted EBITDA.
12. Recovery of prior period banking fees related to foreign exchange transactions.
13. Provision for sales taxes as a result of an ongoing state tax review.

Results of Operations

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

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

Revenue

Manufacturing revenue for 2019 Q4 increased by $224.1 million, or 38.9% compared to 2018 Q4. The increase is related to the acquisition of ADL. Also contributing to the increase is higher volumes in the motor coach business. Partially offsetting this increase is lower selling prices in the Company's motor coach and transit businesses prior to the acquisition of ADL ("legacy manufacturing businesses").

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

During the year the Company has experienced production and delivery challenges as a result of new product launches, ARBOC's chassis supply disruption, extended start-up of KMG, international external supply issues and missed production days due to inclement weather. The result of these factors all lead to missed production and deliveries. A significant portion of the missed deliveries prior to 2019 Q4 were recovered during 2019 Q4 which contributed to the strong revenue for the quarter.

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

Revenue from aftermarket operations in Fiscal 2019 increased by $40.3 million, or 10.7% compared to Fiscal 2018. The acquisition of ADL contributed to revenue during Fiscal 2019. This is partially offset by lower sales volumes in the legacy aftermarket business due to competitive pressures in the private motor coach market. In 2018 Daimler canceled MCI's Distribution Rights Agreement ("DRA") relating to the distribution of Daimler's Setra motor coaches and parts. The cancellation of the DRA resulted in a $4.0 million decrease in the aftermarket parts revenue in Fiscal 2019 compared to Fiscal 2018.

Cost of sales

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

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

Cost of sales from Manufacturing operations in 2019 Q4, excluding the impact of IFRS 16, were $697.8 million (87.2% of manufacturing operations revenue) compared to $483.4 million (83.9% of Manufacturing operations revenue) in 2018 Q4, an increase of $214.4 million or 44.4%. Cost of sales increased as a percentage of revenue as a result of lower margins in the ADL business. Additionally, continued startup costs and related inefficiencies related to KMG's parts fabrication facility contributed to the higher cost of sales as a percentage of revenues.

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

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

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

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

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

Gross Margins

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

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

Included in manufacturing gross margin is a charge of $2.2 million for 2019 Q4 and $31.0 million for Fiscal 2019 related to the unwind of fair value adjustments related to the valuation of acquired assets. Also contributing to the decrease in gross margin is amortization of intangible assets of $5.3 million for 2019 Q4 and $14.4 million for Fiscal 2019 related to the acquisition of ADL. This decreased gross margin as a percentage of revenue by 0.9% for 2019 Q4 and 1.8% for Fiscal 2019.

In addition to the unwind of the fair value adjustment, the decrease in gross margin as a percentage of revenue for both the 2019 Q4 and Fiscal 2019 periods is primarily caused by temporary production inefficiencies within both the motor coach and transit bus businesses. These inefficiencies are due to learning curves related to the production of new products, startup costs at the KMG parts fabrication facility and higher remediation costs.

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

Gross margins from Aftermarket operations in Fiscal 2019, excluding the impact of IFRS 16, of $124.5 million (29.8% of revenue) increased by $17.6 million, or 16.5% compared to gross margins of $106.9 million (28.3 % of revenue) in Fiscal 2018. The increase as a percentage of revenue is primarily due to favourable sales mix.

Gross margins from Aftermarket operations were negatively impacted by the unwinding of fair value adjustments related to the valuation of acquired assets by $0.8 million for Fiscal 2019. This decreased gross margin as a percentage of revenue by 0.2% for Fiscal 2019.

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

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

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

The consolidated SG&A, excluding the impact of IFRS 16, for Fiscal 2019 of $245.5 million (8.5% of consolidated revenue) increased by $34.9 million or 16.6% compared with $210.6 million (8.4% of consolidated revenue) in Fiscal 2018. Other costs from acquisition related expenses of $13.0 million and additional SG&A expenses were the primary reason for the increase in overall SG&A expenses. These increases were partially offset by lower incentive plans expense.

Realized foreign exchange loss/gain

During 2019 Q4, the Company recorded a realized foreign exchange gain of $0.6 million compared to a loss of $2.4 million in 2018 Q4. During Fiscal 2019, the Company recorded a realized foreign exchange gain of $1.0 million compared to a loss of $5.8 million in Fiscal 2018.

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

Earnings from operations

Consolidated earnings from operations in 2019 Q4, excluding IFRS 16 were $70.0 million (7.6% of consolidated revenue) compared to $60.6 million (9.1% of consolidated revenue) in 2018 Q4, an increase of $9.4 million or 15.6%.

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

Fiscal 2018, a decrease of $90.6 million or 44.6%. The decrease as a percentage of revenues is primarily due to the production inefficiencies and the fair value adjustment described within the Cost of Sales section above.

Earnings from operations related to Aftermarket operations in 2019 Q4 were $15.5 million (13.3% of Aftermarket revenue) compared to $15.4 million (18.0% of Aftermarket revenue), an increase of $0.1 million or 0.9%. Earnings from operations related to Aftermarket operations in Fiscal 2019 were $64.0 million (15.3% of Aftermarket revenue) compared to $66.3 million (17.6% of Aftermarket revenue), a decrease of $2.3 million or 3.5%. The decrease as a percentage of revenue is related to the fair value adjustments described within the Cost of Sales section above.

Unrealized foreign exchange gain/loss

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

(Unaudited, U.S. dollars in thousands)	2019 Q4	2018 Q4	Fiscal 2019	Fiscal 2018
Unrealized (gain) loss on forward foreign exchanges contracts	$ (1,475)	$ 2,342	$ (1,797)	$ 2,974
Unrealized (gain) loss on other long-term monetary assets/liabilities	(165)	(1,031)	1,857	(1,593)
	$ (1,640)	$ 1,311	$ 60	$ 1,381

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

Earnings before interest and income taxes ("EBIT")

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

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

Interest and finance costs

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

The increase is primarily due increased interest on long-term debt of $5.8 million. Increased interest is the result of higher average Credit Facility draws for the acquisition of ADL and to finance higher non-cash working capital, which is expected to be recovered as WIP levels are reduced. Interest related to leases capitalized under IFRS 16 and higher other banking charges also contributed. This is offset by a $4.5 million gain on the interest rate swap in 2019 Q4.

The interest and finance costs for Fiscal 2019 of $73.4 million increased by $45.7 million when compared to Fiscal 2018. The increase is primarily due to a $22.0 million loss on the interest rate swap in Fiscal 2019 compared to a loss of $0.8 million in Fiscal 2018. Higher average Credit Facility draws contributed to the increase in interest on long-term debt of $18.6 million and interest related to leases capitalized under IFRS 16 and higher other banking charges contributed to the remaining increase.

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

Earnings before income taxes ("EBT")

EBT for 2019 Q4 of $60.2 million increased by $9.5 million compared to EBT of $50.7 million in 2018 Q4. EBT for Fiscal 2019 of $99.7 million decreased by $111.0 million compared to EBT of $210.7 million in Fiscal 2018. The primary drivers of the changes to EBT are addressed in the Earnings from Operations, EBIT, and Interest and finance costs sections above.

Income tax expense

The income tax expense for 2019 Q4 was $26.1 million compared to $7.9 million in 2018 Q4. The ETR for 2019 Q4 was 43.4% and the ETR for 2018 Q4 was 15.6%. The increase in the overall income tax expense and high ETR, is primarily due to the occurrence of base erosion and anti-abuse tax ("BEAT"), and a revision of prior year tax estimates.

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

Net earnings

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

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

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

Cash Flow

The cash flows of the Company are summarized as follows:

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

Cash flows from operating activities

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

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

Cash flow from financing activities

The cash outflow of $145.2 million during 2019 Q4 mostly related to the repayment of debt and dividends paid to shareholders. The Fiscal 2019 inflow of $298.0 million related to proceeds from debt related for the acquisition of ADL, Shares issued for the acquisition of ADL, financing higher non-cash working capital balances and dividends paid to shareholders.

Cash flow from investing activities

(Unaudited Quarterly Results, U.S. dollars in thousands)	2019 Q4	2018 Q4	Fiscal 2019	Fiscal 2018
Acquisition of intangible assets	$ (11)	$ (32)	(38)	$ (50)
Proceeds from disposition of property, plant and equipment	—	10	174	235
Net cash used in acquisitions	—	—	(327,360)	—
Long-term restricted deposit	—	—	(14,490)	—
Acquisition of property, plant and equipment	(6,968)	(20,144)	(37,575)	(70,991)
Cash from investing activities	$ (6,979)	$ (20,166)	$ (379,289)	$ (70,806)

2019 Q4 investing activities have decreased outflows compared to 2018 Q4 primarily due to lower acquisition of property, plant and equipment. Fiscal 2019 investing activities have greater outflows than Fiscal 2018 primarily due to the acquisition of ADL, partially offset by lower acquisition of property, plant and equipment.

Interest rate risk

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

The fair value of the interest rate swap liability of $15.4 million at December 29, 2019 (2018: $6.6 million asset) was recorded on the audited consolidated statements of financial position as a derivative financial instruments liability and the change in fair value has been recorded as finance costs for the reported period. The unrealized losses recorded on the instrument are a result of interest rate reductions subsequent to entering into the transaction.

Credit risk

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

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

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

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

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

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

Commitments and Contractual Obligations

The following table describes the Company's maturity analysis of the undiscounted cash flows of accrued benefit liabilities as at December 29, 2019:

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

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

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

Under the Credit Facility, the Company had established a letter of credit sub-facility of $100.0 million. As at December 29, 2019, letters of credit amounting to $12.8 million (December 30, 2018: $13.8 million) remained outstanding as security for the contractual obligations of the Company under the Credit Facility.

The Company has an additional bi-lateral credit facility of $63.6 million. As at December 29, 2019, letters of credit totaling $23.8 million were outstanding under the bi-lateral credit facility. Additionally, there are $14.5 million of letters of credit outstanding outside of the Credit Facility and the bi-lateral credit facility.

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

Stock Option Plan

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

Option Grant dates	Number	Exercised	Expired	Vested	Unvested	Expiry date	Exercise price	Fair Value at grant date
March 26, 2013	490,356	(483,030)	—	(7,326)	—	March 26, 2021	C$10.20	C$1.55
December 30, 2013	612,050	(573,668)	(9,631)	(28,751)	—	December 30, 2021	C$10.57	C$1.44
December 28, 2014	499,984	(243,587)	(11,368)	(245,029)	—	December 28, 2022	C$13.45	C$1.83
December 28, 2015	221,888	(19,532)	—	(146,884)	55,472	December 28, 2023	C$26.75	C$4.21
September 8, 2016	2,171	—	—	(1,629)	542	September 8, 2024	C$42.83	C$8.06
January 3, 2017	151,419	(1,610)	(1,615)	(73,299)	74,895	January 3, 2025	C$40.84	C$7.74
January 2, 2018	152,883	—	(1,882)	(37,754)	113,247	January 2, 2026	C$54.00	C$9.53
January 2, 2019	284,674	—	(3,431)	—	281,243	January 2, 2027	C$33.43	C$5.01
July 15, 2019	2,835	—	—	—	2,835	July 15, 2027	C$35.98	C$4.90
	2,418,260	(1,321,427)	(27,927)	(540,672)	528,234		C$30.77	

The following reconciles the stock options outstanding:

	Fiscal 2019		Fiscal 2018	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance at beginning of period	946,306	C$27.02	979,333	C$19.94
Granted during the period	287,559	C$33.46	152,833	C$54.00
Expired during the period	(6,928)	C$40.75	—	—
Exercised during the period	(158,031)	C$12.77	(185,860)	C$11.91
Balance at end of period	1,068,906	C$30.77	946,306	C$27.02

Restricted Share Unit Plan for Non-Employee Directors

Pursuant to the Company’s Restricted Share Unit Plan for Non-Employee Directors, a maximum of 500,000 Shares are reserved for issuance to non-employee directors. The Company issued approximately $145 thousand of director restricted Share units (“Director RSUs”) in 2019 Q4. Of these Director RSUs issued, approximately $94 thousand were exercised and exchanged for 4,434 Shares.

Capital Allocation Policy

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

Maintaining Financial Flexibility

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

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

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

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

There are certain financial covenants under the Credit Facility that have to be maintained. These financial covenants include an interest coverage ratio and a total leverage ratio. The maximum total leverage ratio under the Credit Facility is 3.75 and increases to 4.25 for one year following a material acquisition. The acquisition of ADL on May 28, 2019 was a material acquisition. The terms of the Credit Facility provide relief from the impact of changes in accounting policies, including the impact of IFRS 16. At as December 29, 2019, the Company was in compliance with the ratios.

	December 29, 2019	December 30, 2018
Total Leverage Ratio (must be less than 4.25 for one year following a material acquisition)	3.24	2.09
Interest Coverage Ratio (must be greater than 3.00)	7.73	13.39

Business Investment

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

Return of Capital to Shareholders

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

The Company`s Fiscal 2019 Free Cash Flow was C$211.4 million compared to declared dividends of C$105.5 million during this period. For Fiscal 2018 Free Cash Flow was C$210.5 million compared to declared dividends of C$90.3 million. This resulted in a payout ratio of 49.9% in 2019 compared to 42.9% in 2018.

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

On June 11, 2018, the Company announced that the TSX had accepted a notice filed by the Company of its intention to implement the previous Normal Course Issuer Bid (the "Former NCIB") to repurchase its Shares through the facilities of the TSX and any alternative Canadian trading systems on which the Shares are traded. On January 17, 2019 the Company amended the Former NCIB. Pursuant to the amended Former NCIB, the Company was permitted to repurchase for cancellation up to 5,549,465 Shares, representing approximately 10% of the outstanding public float of Shares on June 4, 2018. The Company was permitted to repurchase Shares commencing on June 14, 2018 up to June 13, 2019, or earlier should the Company have completed its repurchases prior to such date. The Former NCIB expired June 13, 2019.

On June 12, 2019 the Company announced that the TSX had accepted a notice filed by the Company of its intention to implement the NCIB to replace the Former NCIB to repurchase its Shares through the facilities of the TSX and any alternative Canadian trading systems on which the Shares are traded. The Company is permitted to repurchase for cancellation up to 5,357,914 Shares, representing approximately 10% of the outstanding public float of Shares on June 4, 2019. The Company is permitted to repurchase Shares commencing on June 17, 2019 up to June 16, 2020, or earlier should the Company complete its repurchases prior to such date.

The actual number of Shares to be purchased and the timing and pricing of any purchases under the NCIB will depend on future market conditions and potential alternative uses for cash resources. The Company may elect to modify, suspend or discontinue the program at any time without prior notice. During 2019 Q1, the Company repurchased 232,100 Shares under the Former NCIB at an average price of C$31.82 per Share for a total repurchase of C$7.4 million. The Company canceled 986,075 Shares during 2019 Q1, including 232,100 Shares purchased in 2019 Q1 and 753,975 Shares that were purchased in 2018 Q4. There were no shares purchased or canceled under the Former NCIB or the NCIB during 2019 subsequent to 2019 Q1.

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

Critical accounting estimates and judgments

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

New and amended standards adopted by the Company

IFRS 16

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

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

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

The transition adjustment is shown in below.

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

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

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

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

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

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

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

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

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

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

Controls and Procedures

Internal Controls over Financial Reporting

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

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

Management, under the supervision of the CEO and CFO, evaluated the design and operational effectiveness of the Company's ICFR as of December 29, 2019 in accordance with the criteria established in COSO 2013, and concluded that the Company's ICFR are effective.

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

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

Disclosure Controls

Management is responsible for establishing and maintaining disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner and that information required to be disclosed is reported within time periods prescribed by applicable securities legislation. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. The Company's CEO and CFO have concluded that disclosure controls and procedures as at December 29, 2019 were effective.

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

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

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

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

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

Appendix A - Acquisition of ADL

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

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

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

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

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

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

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

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

The information in the table above is provided for 2019 and 2018 to allow readers to understand the impact of ADL's performance as it relates to the Company.

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

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

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

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

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

(Unaudited, U.S. dollars in thousands unless noted)	UK GAAP	IFRS Adjustments	IFRS (GBP)	US Dollar £1 = US $1.2663	Fair Value Adjustments	May 28, 2019 Opening Balance Sheet
Cash and contingent consideration			267,578	$ 338,834		338,834
NFI shares issued			27,552	34,888		34,888
Purchase price			295,130	373,723		373,723
Cash acquired			36,614	46,364		46,364
Net purchase price			258,516	327,359		327,359
Net assets acquired						
Inventory	117,180	34,608	151,788	192,209	29,367	221,576
Accounts receivable	66,167	5,283	71,450	90,477		90,477
Prepaid expenses	8,243	(4,068)	4,175	5,287		5,287
Derivative financial instruments	3,972	(4,248)	(276)	(349)		(349)
Property, plant and equipment	18,256	3,563	21,819	27,629	16,020	43,649
Right-of-use assets	—	13,581	13,581	17,198		17,198
Accounts payable and accrued liabilities	(151,309)	14,989	(136,320)	(172,622)		(172,622)
Income taxes payable	(1,286)		(1,286)	(1,628)		(1,628)
Deferred revenues	(1,565)	(61,634)	(63,199)	(80,029)		(80,029)
Lease liability	(177)	(13,941)	(14,118)	(17,877)		(17,877)
Long-term debt	(45,000)	—	(45,000)	(56,984)		(56,984)
Provisions	(5,871)	—	(5,871)	(7,434)		(7,434)
Deferred tax liabilities	(1,211)	3,503	2,292	2,902	(44,636)	(41,734)
Net tangible assets acquired	7,399	(8,364)	(965)	(1,221)	751	(470)
Trade names					43,181	43,181
Patent and licenses					22,287	22,287
Customer relationships					123,338	123,338
Backlog of sales orders					14,562	14,562
Identifiable intangible assets acquired					203,368	203,368
Goodwill acquired					124,462	124,462

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

Alexander Dennis Limited

Unaudited Consolidated Statement of Earnings

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

As at December 30, 2018

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

Notes:

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

Appendix B - Meaning of Certain References

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

The common shares of NFI ("Shares") are traded on the Toronto Stock Exchange ("TSX") under the symbol "NFI". As at December 29, 2019, 62,493,880 Shares were issued and outstanding. Additional information about NFI and the Company, including NFI's annual information form, is available on SEDAR at www.sedar.com.

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

A "motor coach" or "coach" is a 35-foot to 45-foot over-the-highway bus typically used for intercity transportation and travel over longer distances than heavy-duty transit buses, and is typically characterized by (i) one or two axles in the rear (related to the weight of the vehicle), (ii) high deck floor, (iii) baggage compartment under the floor, (iv) high-backed seats with a coach-style interior (often including a lavatory and underfloor baggage compartments), and (v) no room for standing passengers.

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

Forward-looking Statements

Certain statements in this MD&A are "forward looking statements", which reflect the expectations of management regarding the Company's future growth, results of operations, performance and business prospects and opportunities. The words "believes", "anticipates", "plans", "expects", "intends", "projects", "forecasts", "estimates" and similar expressions are intended to identify forward looking statements. These forward-looking statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this MD&A. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not or the times at or by which such performance or results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements. Such differences may be caused by factors which include, but are not limited to, funding may not continue to be available to the Company's customers at current levels or at all; the Company's business is affected by economic factors and adverse developments in economic conditions which could have an adverse effect on the demand for the Company's products and the results of its operations (including the effect on demand for the Company's products and services as a result of the impact of the COVID-19 virus on customers); currency fluctuations could adversely affect the Company's financial results or competitive position; interest rates could change substantially, materially impacting the Company's revenue and profitability; an active, liquid trading market for the Shares may cease to exist, which may limit the ability of shareholders to trade Shares; the market price for the Shares may be volatile; if securities or industry analysts do not publish research or reports about the Company or if their reports are inaccurate or unfavorable to the Company or its business, or if they adversely change their recommendations regarding the Shares or if the Company's results of operations do not meet their expectations, the Share price and trading volume could decline. In addition, other risk factors may include entrance of new competitors; failure of the ratification of the United States-Mexico-Canada Agreement (USMCA) could be materially adverse to NFI; current requirements under "Buy America" regulations may change and/or become more onerous or suppliers' "Buy America" content may change; changes resulting from a hard exit of United Kingdom (UK) from the European Union (commonly referred to as "Brexit")and/or changes to the US Federal Funding mechanism (FAST Act) or Trade Policies may result in supply chain disruption and a potential downturn in the UK and US economies that may suppress demand; failure of the Company to comply with the disadvantaged business enterprise ("DBE") program requirements or the failure to have its DBE goals approved by the FTA; absence of fixed term customer contracts; exercise of options and customer suspension or termination for convenience; United States content bidding preference rules may create a competitive disadvantage; local content bidding preferences in the United States may create a competitive disadvantage; requirements under Canadian content policies may change and/or become more onerous; operational risk, dependence on limited sources or unique sources of supply (including the risk of supply disruption due to suppliers affected by the COVID-19 virus); dependence on supply of engines that comply with emission regulations; a disruption, termination or alteration of the supply of vehicle chassis or other critical components from third-party suppliers could materially adversely affect the sales of certain of the Company's products; the Company's profitability can be adversely affected by increases in raw material and component costs as well as the imposition of tariffs and surtaxes on material imports; the Company may incur material losses and costs as a result of product warranty costs, recalls and remediation of buses; production delays may result in liquidated damages under the Company's contracts with its customers; catastrophic events may lead to production curtailments or shutdowns; the Company may not be able to successfully renegotiate collective bargaining agreements when they expire and may be adversely affected by labour disruptions and shortages of labour; the Company's operations are subject to risks and hazards that may result in monetary losses and liabilities not covered by insurance or which exceed its insurance coverage; the Company may be adversely affected by rising insurance costs; the Company may not be able to maintain performance bonds or letters of credit required by its contracts or obtain performance bonds and letters of credit required for new contracts; the Company is subject to litigation in the ordinary course of business and may incur material losses and costs as a result of product liability claims; the Company may have difficulty selling pre-owned coaches and realizing expected resale values; the Company may incur costs in connection with provincial, state or federal regulations relating to axle weight restrictions and vehicle lengths; the Company may be subject to claims and liabilities under environmental, health and safety laws; dependence on management information systems and cyber security risks; the Company's ability to execute its strategy and conduct operations is dependent upon its ability to attract, train and retain qualified personnel, including its ability to retain and attract executives, senior management and key employees; the Company may be exposed to liabilities under applicable anti-corruption laws and any determination that it violated these laws could have a material adverse effect on its business; the Company's risk management policies and procedures may not be fully effective in achieving their intended purposes; internal controls over financial reporting, disclosure controls and procedures; ability to successfully execute strategic plans and maintain profitability; development of competitive or disruptive products, services or technology; development and testing of new products; acquisition risk; third-party distribution/dealer agreements; availability to the Company of future financing; the Company may not be able to generate the necessary amount of cash to service its existing debt, which may require the Company to refinance its debt; the Company's substantial consolidated indebtedness could negatively impact the business; the restrictive covenants in the Company's credit facilities could impact the Company's business and affect its ability to pursue its business strategies; payment of dividends is not guaranteed; a significant amount of the Company's cash is distributed, which may restrict potential growth; NFI is dependent on its subsidiaries for all cash available for distributions; future sales or the possibility of future sales of a substantial number of Shares may impact the price of the Shares and could result in dilution; if the Company is required to write down goodwill or other intangible assets, its financial condition and operating results would be negatively affected; income tax risk, investment eligibility and Canadian Federal Income Tax risks; the effect of comprehensive U.S. tax reform legislation on the NF Holdings and its U.S. subsidiaries (the "NF Group"), whether adverse or favorable, is uncertain; certain U.S. tax rules may limit the ability of NF Group to deduct interest expense for U.S. federal income tax purposes and may increase the NF Group's tax liability; certain financing transactions could be characterized as "hybrid transactions" for U.S. tax purposes, which could increase the NF Group's tax liability. NFI cautions that this list of factors is not exhaustive. These factors and other risks and uncertainties are discussed in NFI's press releases, Annual Information Form and materials filed with the Canadian securities regulatory authorities which are available on SEDAR at www.sedar.com.

Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, investors cannot be assured that actual results will be consistent with these forward-looking statements, and the differences may be material. These forward-looking statements are made as of the date of this MD&A and NFI assumes no obligation to update or revise them to reflect new events or circumstances, except as required by applicable securities laws.

DEFINITIONS OF ADJUSTED EBITDA, ROIC, FREE CASH FLOW, ADJUSTED NET EARNINGS, ADJUSTED EARNINGS PER SHARE, REGIONS INCLUDING: NORTH AMERICA, UK AND EUROPE, ASIAPACIFIC, AND OTHER

References to "Adjusted EBITDA" are to earnings before interest, income taxes, depreciation and amortization after adjusting for the effects of certain non-recurring and/or non-operations related items that do not reflect the current ongoing cash operations of the Company. These adjustments include gains or losses on disposal of property, plant and equipment, fair value adjustment for total return swap, unrealized foreign exchange losses or gains on non-current monetary items and forward foreign exchange contracts, costs associated with assessing strategic and corporate initiatives, past service costs and other pension costs, non-recurring restructuring costs, fair value adjustment to acquired subsidiary company's inventory and deferred revenue, proportion of the total return swap realized, equity settled stock-based compensation, recovery of currency transactions, prior year sales tax provision, and release of provision related to purchase accounting.

"Free Cash Flow" means net cash generated by operating activities adjusted for changes in non-cash working capital items, interest paid, interest expense, income taxes paid, current income tax expense, principal portion of finance lease payments, cash capital expenditures, proceeds from disposition of property, plant and equipment, costs associated with assessing strategic and corporate initiatives, fair value adjustment to acquired subsidiary company's inventory and deferred revenue, defined benefit funding, defined benefit expense, past service costs, proportion of total return swap, recovery on currency transactions, prior year sales tax provision, non-recurring restructuring costs, gain on release of provision related to purchase accounting, foreign exchange gain (loss) on cash held in foreign currency.

References to "ROIC" are to net operating profit after taxes (calculated as Adjusted EBITDA less depreciation of plant and equipment, depreciation of right-of-use assets and income taxes at the expected effective tax rate) divided by average invested capital for the last twelve month period (calculated as to shareholders' equity plus long-term debt, obligations under leases, other long-term liabilities and derivative financial instrument liabilities less cash).

References to "Adjusted Net Earnings" are to net earnings after adjusting for the after tax effects of certain non-recurring and/or non-operational related items that do not reflect the current ongoing cash operations of the Company including: fair value adjustments of total return swap, unrealized foreign exchange loss or gain, unrealized gain or loss on the interest rate swap, portion of the total return swap realized, costs associated with assessing strategic and corporate initiatives, fair value adjustment to acquired subsidiary company's inventory and deferred revenue, equity settled stock-based compensation, gain or loss on disposal of property, plant and equipment, past service costs and other pension costs, gain on release of provision related to purchase accounting, recovery on currency transactions, prior year sales tax provision, and non-recurring restructuring costs .

References to "Adjusted Earnings per Share" are to Adjusted Net Earnings divided by the average number of Shares outstanding.

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

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

Effective December 31, 2018, the Company has adopted IFRS 16, which specifies how to recognize, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases. This MD&A separately presents 2019 Q4 and Fiscal 2019 information, excluding the impact of IFRS 16 in areas where the impact is significant. See "Critical Accounting Estimates and Judgments" in Note 2 to the Consolidated Financial Statements .

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

Appendix C - 2019 Fourth Quarter Order Activity

Demand for Transit Buses and Motor Coaches

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

Management was encouraged by fourth quarter growth in the Company's Bid Universe. At the end of 2019 Q4, the total Bid Universe was 27,648 EUs, an increase of 18.0% from 2018 Q4 and 0.6% from 2019 Q3, while the active Bid Universe increased by 71.9% from 2018 Q4 and decreased by 4.3% from 2019 Q3. The Bid Universe EUs fluctuate significantly from quarter-to-quarter based on public tender activity procurement and award processes.

	Bids in Process (EUs)	Bids Submitted (EUs)	Active EUs	Forecasted Industry Procurement over 5 Years (EUs)(1)	Total Bid Universe (EUs)
2018 Q4	670	2,061	2,731	20,694	23,425
2019 Q1	1,350	2,039	3,389	21,143	24,532
2019 Q2	1,231	2,929	4,160	20,686	24,846
2019 Q3	1,216	3,691	4,907	22,588	27,495
2019 Q4	1,760	2,934	4,694	22,954	27,648

(1) Management's estimate of anticipated future industry procurement over the next five years is based on direct discussions with select U.S. and Canadian transit authorities. This estimate includes potential activity for New Flyer and MCI vehicles, but excludes potential ARBOC and ADL U.S. and Canadian sales.

Procurement of heavy-duty transit buses and motor coaches by the U.S. and Canadian public sector is typically accomplished through formal multi-year contracts, while procurement by the private sector, in North America, the UK and Europe and Asia Pacific is typically made on a transactional basis. As a result, the Company does not maintain a Bid Universe for private sector buses and coaches.

The sale of cutaway and medium-duty buses manufactured by ARBOC is accomplished on a transactional purchase order basis through non-exclusive third-party dealers who hold contracts directly with the customers. Bids are submitted by and agreements are held with a network of dealers. Cutaway and medium-duty bus activity therefore is not included in the Bid Universe metric.

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

Order activity

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

	New Orders in Quarter (Firm and Option EUs)	LTM New Orders (Firm and Option EUs)	Option Conversions in Quarter (EUs)	LTM Option Conversions (EUs)
2018 Q4	857	3,763	575	1,795
2019 Q1	909	3,936	126	1,480
2019 Q2	474	2,998	350	1,325
2019 Q3	1,035	3,276	229	1,554
2019 Q4	**1,159**	**3,577**	**813**	**1,518**

Options

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

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

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

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

In addition to contracts for identified public customers, the Company has focused on state procurements and cooperative purchasing agreements, with the objective of having available schedules from which customers within a prescribed region or defined list can purchase. The Company has successfully bid and been named on several state contracts. These contracts, however, are not recorded in backlog as they do not have defined quantities allocated to the Company or any other OEM. Once a customer purchases a bus under one of these agreements, the purchase is recorded as a firm order.

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

In addition, 664 EUs of new firm and option orders were pending from customers at the end of 2019 Q4, where approval of the award to the Company had been made by the customer's board, council, or commission, as applicable, but purchase documentation had not yet been received by the Company and therefore not yet included in the backlog.

Backlog

The Company's total backlog consists of buses sold primarily to U.S. and Canadian public customers and private operators in the UK and Europe. The majority of the backlog relates to New Flyer transit buses for public clients with some of the backlog consisting of units from MCI, ADL and ARBOC. Options for ARBOC vehicles are held by dealers, rather than the operator, and are not included as optionsgre in the NFI backlog, but are converted to firm backlog when vehicles are ordered by the dealer.

Transit buses and motor coaches incorporating clean propulsion systems, including compressed natural gas ("CNG"), diesel-electric hybrid, and ZEBs, which consist of trolley-electric, fuel cell-electric, and battery-electric buses represent approximately 42.0% of the total backlog. ZEBs represent approximately 4% of total backlog.

	2019 Q4			2019 Q3			2018 Q4		
	Firm Orders	Options	Total	Firm Orders	Options	Total	Firm Orders	Options	Total
Beginning of period	4,313	7,281	11,594	3,306	6,691	9,997	3,423	7,687	11,110
Acquired Backlog (ADL)(1)	—	—	—	1,226	805	2,031	—	—	—
New orders	950	209	1,159	950	85	1,035	785	73	858
Options exercised	813	(813)	—	229	(229)	0	575	(575)	0
Shipments(2)	(1,844)	—	(1,844)	(1,392)	—	(1,392)	(1,126)	—	(1,126)
Cancelled/expired	(8)	(159)	(167)	(6)	(71)	(77)	(8)	(1)	(9)
End of period	**4,224**	**6,518**	**10,742**	**4,313**	**7,281**	**11,594**	**3,649**	**7,184**	**10,833**
Consisting of:									
Heavy-duty transit buses	3,236	5,722	8,958	3,295	6,480	9,775	3,024	6,177	9,201
Motor coaches	615	796	1,411	664	801	1,465	468	1,007	1,475
Cutaway and medium-duty buses	373	—	373	354	—	354	157	—	157
Total Backlog	**4,224**	**6,518**	**10,742**	**4,313**	**7,281**	**11,594**	**3,649**	**7,184**	**10,833**

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

At the end of 2019 Q4, the Company's total backlog (firm and options) of 10,742 EUs (valued at $5.2 billion) has decreased compared to 11,594 EUs (valued at $5.5 billion) at the end of 2019 Q3. The decrease was driven by record deliveries in the quarter of 1,844 EUs. The summary of the values is provided below.

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