May 8, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS MARCH 31, 2019

Information in this Management's Discussion and Analysis ("MD&A") relating to the financial condition and results of operations of NFI Group Inc. ("NFI") is supplemental to, and should be read in conjunction with, NFI's unaudited interim condensed consolidated financial statements (including notes) (the "Financial Statements") for the 13-week period ended March 31, 2019 ("2019 Q1").

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

QUARTERLY AND ANNUAL REPORTING PERIODS

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

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

MEANING OF CERTAIN REFERENCES

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

The common shares of NFI ("Shares") are traded on the Toronto Stock Exchange ("TSX") under the symbol "NFI". As at March 31, 2019, 60,862,299 Shares were issued and outstanding. Additional information about NFI and the Company, including NFI's annual information form, is available on SEDAR at www.sedar.com.

A "motor coach" or "coach" is a 35-foot to 45-foot over-the-highway bus typically used for intercity transportation and travel over longer distances than heavy-duty transit buses, and is typically characterized by (i) one or two axles in the rear (related to the weight of the vehicle), (ii) high deck floor, (iii) baggage compartment under the floor, (iv) high-backed seats with a coach-style interior (often including a lavatory and underfloor baggage compartments), and (v) no room for standing passengers. ARBOC manufactures body-on-chassis or "cutaway" and "medium-duty" buses that service transit, paratransit, and shuttle applications. Buses manufactured by New Flyer are classified as "transit buses". Collectively, transit buses, medium-duty buses and cutaways, are referred to as "buses".

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

Forward-looking Statements

Certain statements in this press release 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 release. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not or the times at or by which such performance or results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements. Such differences may be caused by factors which include, but are not limited to, funding may not continue to be available to the Company’s customers at current levels or at all, the Company’s business is affected by economic factors and adverse developments in economic conditions which could have an adverse effect on the demand for the Company’s products and the results of its operations, currency fluctuations could adversely affect the Company’s financial results or competitive position, interest rates could change substantially, materially impacting the Company’s revenue and profitability, an active, liquid trading market for the Shares may cease to exist, which may limit the ability of shareholders to trade Shares, the market price for the Shares may be volatile, if securities or industry analysts do not publish research or reports about the Company and its business, if they adversely change their recommendations regarding the Shares or if the Company’s results of operations do not meet their expectations, the Share price and trading volume could decline. In addition, if securities or industry analysts publish inaccurate or unfavorable research about the Company or its business, the Share price and trading volume of the Shares could decline, competition in the industry and entrance of new competitors, failure of the ratification of the Unites 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, failure of the Company to comply with the DBE program requirements or the failure to have its DBE goals approved by the FTA, absence of fixed term customer contracts, exercise of options and customer suspension or termination for convenience, united States content bidding preference rules may create a competitive disadvantage, local content bidding preferences in the United States may create a competitive disadvantage, requirements under Canadian content policies may change and/or become more onerous, operational risk, dependence on limited sources or unique sources of supply, dependence on supply of engines that comply with emission regulations, a disruption, termination or alteration of the supply of vehicle chassis or other critical components from third-party suppliers could materially adversely affect the sales of certain of the Company’s products, the Company’s profitability can be adversely affected by increases in raw material and component costs as well as the imposition of tariffs and surtaxes on material imports, the Company may incur material losses and costs as a result of product warranty costs, recalls and remediation of transit buses and motor coaches, 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 Credit Facility could impact the Company’s business and affect its ability to pursue its business strategies, payment of dividends is not guaranteed, a significant amount of the Company’s cash is distributed, which may restrict potential growth, NFI is dependent on its subsidiaries for all cash available for distributions, future sales or the possibility of future sales of a substantial number of Shares may impact the price of the Shares and could result in dilution, if the Company is required to write down goodwill or other intangible assets, its financial condition and operating results would be negatively affected, income tax risk, investment eligibility and Canadian Federal Income Tax risks, the effect of comprehensive U.S. tax reform legislation on the NF Group, whether adverse or favorable, is uncertain, certain U.S. tax rules may limit the ability of NF Holdings and its U.S. subsidiaries (the “NF Group”) to deduct interest expense for U.S. federal income tax purposes and may increase the NF Group’s tax liability, certain financing transactions could be characterized as “hybrid transactions” for U.S. tax purposes, which could increase the NF Group’s tax liability. NFI cautions that this list of factors is not exhaustive. These factors and other risks and uncertainties are discussed in NFI's press releases, Annual Information Form and materials filed with the Canadian securities regulatory authorities which are available on SEDAR at www.sedar.com.

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

DEFINITIONS OF ADJUSTED EBITDA, ROIC, FREE CASH FLOW, ADJUSTED NET EARNINGS AND ADJUSTED EARNINGS PER SHARE

References to "Adjusted EBITDA" are to earnings before interest, income taxes, depreciation and amortization after adjusting for the effects of certain non-recurring and/or non-operations related items that do not reflect the current ongoing cash operations of the Company including: gains or losses on disposal of property, plant and equipment, fair value adjustment for total return swap, unrealized foreign exchange losses or gains on non-current monetary items and forward foreign exchange contracts, costs associated with assessing strategic and corporate initiatives, past service costs, non-recurring costs or recoveries relating to business acquisitions, fair value adjustment to acquired subsidiary company's inventory and deferred revenue, proportion of the total return swap realized, equity settled stock-based compensation and provision release related to purchase accounting. "Free Cash Flow" means net cash generated by operating activities adjusted for changes in non-cash working capital items, interest paid, interest expense, income taxes paid, current income tax expense, principal portion of finance lease payments, cash capital expenditures, proceeds from disposition of property, plant and equipment, costs associated with assessing strategic and corporate initiatives, non-recurring transitional costs related to business acquisition, fair value adjustment to acquired subsidiary company's inventory and deferred revenue, defined benefit funding, defined benefit expense, past service costs, foreign exchange gain (loss) on cash held in foreign currency and gain on release of provision related to purchase accounting. References to "ROIC" are to net operating profit after taxes (calculated as Adjusted EBITDA less depreciation of plant and equipment, depreciation of right-of-use assets and income taxes at the expected effective tax rate) divided by average invested capital for the last twelve month period (calculated as to shareholders' equity plus long-term debt, obligations under leases, other long-term liabilities and derivative financial instrument liabilities less cash). References to "Adjusted Net Earnings" are to net earnings after adjusting for the after tax effects of certain non-recurring and/or non-operational related items that do not reflect the current ongoing cash operations of the Company including: gains or losses on disposal of property, plant and equipment, unrealized foreign exchange losses or gains on non-current monetary items, fair value adjustment for total return swap, non-recurring transitional costs or recoveries relating to business acquisitions, equity settled stock-based compensation, gain on bargain purchase of subsidiary company, fair value adjustment to acquired subsidiary company's inventory and deferred revenue, past service costs, costs associated with assessing strategic and corporate initiatives, gain on release of provision related to purchase accounting and proportion of the total return swap realized. References to "Adjusted Earnings per Share" are to Adjusted Net Earnings divided by the average number of Shares outstanding.

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

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

Business Overview

The Company is North America's largest bus and coach manufacturer and parts distributor providing a comprehensive suite of mass transportation solutions under brands: New Flyer® (heavy-duty transit buses), ARBOC® (low-floor cutaway and medium-duty buses), MCI® (motor coaches), NFI Parts™ (parts, support, and service) and Carfair (fibre-reinforced plastic and composites). The Company has over

6,000 team members, operating from 31 facilities across Canada and the United States, and can trace its roots back to 1930. The Company's Shares are traded on the Toronto Stock Exchange under the symbol NFI.

On May 14, 2018, the articles of incorporation of New Flyer Industries Inc. were amended to change the name to "NFI Group Inc.". The Company believes the new name better reflects the multi-platform nature of its business.

The Company's buses incorporate the widest range of drive systems available including: clean diesel, natural gas, diesel-electric hybrid, and zero-emission electric (trolley, battery, and fuel cell) on proven bus platforms. It also supports infrastructure development through New Flyer Infrastructure Solutions™, a service dedicated to providing safe and reliable charging and mobility solutions.

In total, the Company supports over 74,000 buses and coaches currently in service across North America.

New Flyer is North America's heavy-duty transit bus leader and offers the most advanced product line under the Xcelsior® and Xcelsior CHARGE™ brands. New Flyer actively supports over 41,000 heavy-duty transit buses (New Flyer, NABI, and Orion) currently in service, of which 7,300 are powered by electric motors and battery propulsion and 1,600 are zero-emission.

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

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

NFI Parts is North America's most comprehensive bus and motor coach parts organization, providing replacement parts, technical publications, training, service, and support.

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

2019 First Quarter Financial Results

Production throughput and deliveries were negatively impacted by abnormal factors including: adverse winter weather conditions which caused missed production days and delayed customer inspections, new model launches, which impacted production line efficiencies, and chassis supply disruption for select ARBOC vehicles.

Effective December 31, 2018, the Company has adopted IFRS 16, which specifies how to recognize, present and disclose lease. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases. This MD&A presents 2019 Q1 information, excluding the impact of IFRS 16 in areas where the impact is significant.

Deliveries (EUs) (Unaudited)	**2019 Q1**		**2018 Q1**
Transit buses	693		671
Motor coaches	140		187
Medium-duty and cutaway buses	70		135
New transit bus, coach and cutaway	903		993
Pre-owned coach	83		64
Average EU selling price[1] (Unaudited, U.S. dollars in thousands)			
Transit buses	552.6		533.2
Motor coaches	529.5		522.2
Medium-duty and cutaway buses	103.8		81.8
New transit bus, coach and cutaway	514.2	$	469.9
Pre-owned coaches	120.6		127.1

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

Consolidated Revenue (Unaudited, U.S. dollars in millions)		**2019 Q1**		**2018 Q1**
Transit buses		382.9	$	357.8
Motor coaches		74.1		97.7
Medium-duty and cutaway buses		7.3		11.1
New transit bus, coach and cutaway		464.3	$	466.6
Pre-owned coach		10.0		8.1
Fiberglass reinforced polymer components		2.0		3.9
Manufacturing		476.4		478.6
Aftermarket		90.6		100.1
Total Revenue	$	567.0	$	578.7

Manufacturing revenue for 2019 Q1 decreased by $2.2 million, or 0.5% compared to 2018 Q1. Motor coach revenue decreased by $23.6 million, or 24.1% primarily due to 25.1% lower volumes during 2019 Q1. The lower volumes were driven by unfavorable weather during 2019 Q1, larger seasonality impact than in the 2018 Q1 and the impact of manufacturing new coach models. Medium-duty and cutaway bus revenue decreased by $3.8 million or 34.2%, primarily due to chassis supply disruption which impacted select ARBOC vehicles. The line entries replacing vehicles impacted by the chassis supply disruption are of a higher selling price. Partially offsetting these decreases were higher transit bus revenues of $25.1 million or 7.0% primarily due to sales mix and higher volumes of 3.3%. The transit volumes, although higher than the comparative period, were also negatively impacted by unfavorable weather. Management expects the lost volumes will be recovered in 2019. Higher pre-owned coach revenues also partially offset the revenue decreases by $1.9 million. The higher pre-owned coach revenue was driven a 29.7% increase in volumes, partially offset by lower selling price.

Revenue from aftermarket operations in 2019 Q1 decreased by $9.5 million, or 9.5% compared to 2018 Q1. Volumes were lower due to the termination of MCI's Distribution Rights Agreement ("DRA") to sell and support German made Setra motor coaches in the U.S. and Canada, market softness in the private coach market and fleet renewal with certain customers.

Adjusted EBITDA (Unaudited, U.S. dollars in millions)	**2019 Q1**	**2019 Q1 (excluding IFRS 16)**	**2018 Q1**
Manufacturing	42.4	40.5	53.9
Aftermarket	17.9	17.3	19.9
Total Adjusted EBITDA	$ 60.3	$ 57.8	$ 73.8
Adjusted EBITDA % of revenue			
Manufacturing	8.9%	8.5%	11.2%
Aftermarket	19.8%	19.0%	19.9%
Total	10.6%	10.2%	12.7%

Manufacturing Adjusted EBITDA per new EU delivered (Unaudited, U.S. dollars in millions)	**2019 Q1**	**2019 Q1 (excluding IFRS 16)**	**2018 Q1**
Manufacturing Adjusted EBITDA	42.4	40.5	53.9
New transit bus, coach and cutaway deliveries (EUs)	903	903	993
Manufacturing Adjusted EBITDA per new EU delivered (in thousands)	$ 47.0	$ 44.9	$ 54.3

Consolidated Adjusted EBITDA, excluding the impact of IFRS 16, for 2019 Q1 decreased by $16.0 million, or 21.7% compared to 2018 Q1.

The 2019 Q1 manufacturing Adjusted EBITDA, excluding the impact of IFRS 16, decreased by $13.4 million or 24.8% compared to 2018 Q1. The decrease is primarily due to lower volumes related to the coach and medium-duty and cutaway businesses of 25.1% and 48.2% respectively. Lower volumes in coach are due to unfavourable weather conditions during 2019 Q1, a larger impact of seasonality than in 2018 Q1 and the impact of manufacturing new coach models. Lower volumes for medium-duty buses and cutaways were primarily due to chassis supply disruption which impacted certain vehicles. Unfavorable weather conditions also negatively impacted the transit bus business resulting in lost production days, overhead inefficiency and higher overtime costs, which lowered Adjusted EBITDA. Additionally increased production of new products and related learning curves and normal changes in margin due to model mix contributed to the overall reduction in Adjusted EBITDA.

The 2019 Q1 aftermarket Adjusted EBITDA, excluding the impact of IFRS 16, decreased by $2.1 million compared to 2018 Q1, primarily due to lower shipment volumes of 8.4% in 2019 Q1 compared to 2018 Q1. Volumes were lower due to the loss of the Setra DRA, market softness in the private coach market and fleet renewal with certain customers.

(Unaudited, U.S. dollars in millions)	**2019 Q1**	**2019 Q1 (excluding IFRS 16)**	**2018 Q1**
Net earnings	$ 16.1	$ 17.5	$ 30.4
Adjusted net earnings	15.8	17.2	36.1
Net earnings per share	$ 0.26	$ 0.29	$ 0.48
Adjusted earnings per share	$ 0.26	$ 0.28	$ 0.57

Net earnings during 2019 Q1, excluding the impact of IFRS 16, decreased by $12.9 million, or 42.4% compared to 2018 Q1. The same factors that caused a decrease to Adjusted EBITDA discussed above also led to a decrease in net earnings. Additionally, higher interest expense of $14.3 million related to losses on the Company's interest rate derivatives and a higher average unsecured, revolving credit facility ("Credit Facility") draw from changes in working capital, normal course issuer bid ("NCIB") purchases and dividends paid contributed to the lower net earnings. Partially offsetting these decreases were lower income tax expenses of $7.6 million and past service costs of $3.9 million in 2018 Q1 did not recur in 2019 Q1.

As a result of the net earnings decreases discussed above, net earnings per Share for 2019 Q1, excluding the impact of IFRS 16 decreased by $0.19 compared to 2018 Q1.

Adjusted net earnings, excluding the impact of IFRS 16, decreased during 2019 Q1 by $18.9 million compared to 2018 Q1 primarily due to the same factors discussed related to net earnings above. The past service costs of $3.9 million were not included within adjusted net earnings in 2018 Q1.

As a result of the decreases discussed above, Adjusted Earnings per Share in 2019 Q1 decreased by $0.29 compared to 2018 Q1.

Free Cash Flow (Unaudited, dollars in millions)		2019 Q1		2018 Q1
Free Cash Flow (U.S. dollars)	$	32.4	$	40.7
Free Cash Flow (CAD dollars)	$	43.2	$	52.4
Declared dividends (CAD dollars)	$	25.9	$	20.5
Payout Ratio (Declared dividends divided by Free Cash Flow)		60.0%		39.0%

Free cash flow in 2019 Q1 decreased by $8.3 million, or 20.3%, when compared to 2018 Q1, primarily due to lower earnings from operations primarily due to the impacts of seasonality during 2019 Q1. The amount of dividends declared increased by 26.3% in 2019 Q1 compared to 2018 Q1 as a result of increases in the annual dividend rate in 2018 Q2 and 2019 Q1, partially offset by the impact of share repurchases under the Company's NCIB program in during Fiscal 2018 and 2019 Q1. The above factors have resulted in a higher payout ratio in 2019 Q1 compared to 2018 Q1.

The Company returned $22.5 million back to shareholders in 2019 Q1 as a result of Share repurchases made under its NCIB and dividends paid, which represents an increase of 38.0% when compared to $16.3 million in 2018 Q1.

The liquidity position of $301.5 million as at March 31, 2019 is comprised of available cash of $9.6 million and $292.0 million available under the new Credit Facility as compared to a liquidity position of $355.4 million at December 30, 2018. The decrease in liquidity primarily relates to the repurchase of Shares under the NCIB, and changes in non-cash working capital. Changes in non-cash working capital are primarily a result of seasonality and are expected to be temporary in nature. Management believes these funds, together with Share issuances, other borrowings capacity and the cash generated from the Company's operating activities, will provide the Company with sufficient liquidity and capital resources to meet its current financial obligations as they come due, as well as provide funds for its financing requirements, capital expenditures, dividend payments and other operational needs for the foreseeable future.

Property, Plant and Equipment ("PPE") expenditures (Unaudited, U.S. dollars in millions)	2019 Q1	2018 Q1
PPE expenditures	8.2	16.9
Less PPE expenditures funded by leases	(1.2)	(5.1)
Cash acquisition of PPE reported on statement of cash flows	7.0	11.8

PPE cash expenditures for 2019 Q1 decreased by $4.8 million or 59.3% compared to 2018 Q1. Capital expenditures for 2019 are planned to be lower than in 2018.

Management believes that ROIC is an important ratio and metric that can be used to assess investments against their related earnings and capital utilization. ROIC during the 52-Weeks Ended March 31, 2019 ("2019 Q1 LTM"), excluding the impact of IFRS 16 was 12.5% as compared to 16.2% for the 52-Weeks Ended April 1, 2018. The decrease was primarily a result of material investments made in the Shepherdsville, KY parts fabrication facility and renovations and expansion of the Anniston, AL facility which are not expected to generate benefits until the second half of 2019, higher inventory and lower Adjusted EBITDA as previously explained in this MD&A.

(Unaudited, U.S. dollars in thousands)		March 31, 2019		March 31, 2019 (Excluding IFRS 16)		April 1, 2018
Total assets	$	2,205.2	$	2,099.3	$	2,045.3
Total long-term liabilities		972.3		863.3		814.4
ROIC LTM[1, 2]		12.5%		12.5%		16.2%

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

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

2019 First 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 first quarter growth in NFI's Bid Universe. At the end of Q1 2019, the total Bid Universe was 24,532 EUs, an increase of 4.7% from Q4 2018, while the active Bid Universe increased by 24.1% in the quarter. The Bid Universe EUs fluctuate significantly from quarter-to-quarter based on public tender activity procurement and award processes.

	Bids in Process (EUs)	Bids Submitted (EUs)	Active EUs	Forecasted Industry Procurement over 5 Years (EUs)(1)	Total Bid Universe (EUs)
2018 Q1	2,974	3,479	6,453	17,186	23,639
2018 Q2	1,319	2,391	3,710	18,440	22,150
2018 Q3	955	2,323	3,278	18,084	21,362
2018 Q4	670	2,061	2,731	20,694	23,425
2019 Q1	1,350	2,039	3,389	21,143	24,532

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

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

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

Order activity

New orders (firm and options) during 2019 Q1 totaled 909 EUs. The new firm and option orders awarded to the Company for 2019 Q1 LTM were 3,936 EUs. The Company was also successful at converting 126 EUs of options during 2019 Q1 to firm orders, which contributed to the 1,480 EUs of options converted to firm orders during 2019 Q1 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 Q1	736	5,848	441	1,627
2018 Q2	1,413	6,303	505	1,743
2018 Q3	757	5,426	274	1,458
2018 Q4	857	3,763	575	1,795
2019 Q1	**909**	**3,936**	**126**	**1,480**

Options

In 2019 Q1, 248 option EUs expired, compared to one option EU that expired during 2018 Q4.

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

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
A) Options Expired (EUs)	965	504	550	331	741	248					3,339
B) Options Exercised (EUs)	1,149	1,339	2,064	1,404	1,795	126					7,877
C) Current Options by year of expiry (EUs)						925	1,189	1,630	2,334	933	7,011
D) Conversion rate % = B / (A+B)	**54%**	**73%**	**79%**	**81%**	**71%**						

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

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

The Company's 2019 Q1 LTM Book-to-Bill ratio (defined as new firm and option orders divided by new transit bus, medium-duty, cutaways and coach deliveries) was 93%, an increase of 6% from 87% in Fiscal 2018.

In addition, 106 EUs of new firm and option orders were pending from customers at the end of 2019 Q1, 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 public customers. The majority of the backlog relates to New Flyer transit buses for public clients with some of the backlog consisting of units from MCI and ARBOC. Options for ARBOC vehicles are held by dealers, rather than the operator, and are not included as an option in the NFI backlog, but are converted to firm backlog when vehicles are ordered by the dealer.

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

	2019 Q1			2018 Q1			2018 Q4		
	Firm Orders	Options	Total	Firm Orders	Options	Total	Firm Orders	Options	Total
Beginning of period	3,649	7,184	10,833	4,186	7,971	12,157	3,423	7,687	11,110
New orders	708	201	909	365	371	736	785	73	858
Options exercised	126	(126)	0	441	(441)	0	575	(575)	0
Shipments(1)	(903)	—	(903)	(993)	—	(993)	(1,126)	—	(1,126)
Cancelled/expired	(4)	(248)	(252)	(2)	(350)	(352)	(8)	(1)	(9)
End of period	**3,576**	**7,011**	**10,587**	**3,997**	**7,551**	**11,548**	**3,649**	**7,184**	**10,833**
Consisting of:									
Heavy-duty transit buses	2,878	6,035	8,913	3,371	6,260	9,631	3,024	6,177	9,201
Motor coaches	516	976	1,492	371	1,291	1,662	468	1,007	1,475
Cutaway and medium-duty buses	182	—	182	255	—	255	157	—	157
Total Backlog	3,576	7,011	10,587	3,997	7,551	11,548	3,649	7,184	10,833

(1) Shipments do not include delivery of pre-owned coaches as these coaches are not included in the backlog.

At the end of 2019 Q1, the Company's total backlog (firm and options) of 10,587 EUs (valued at $5.2 billion) has decreased compared to 10,833 EUs (valued at $5.35 billion) at the end of 2018 Q4. The summary of the values is provided below.

	2019 Q1		2018 Q1		2018 Q4	
		Equivalent Units		Equivalent Units		Equivalent Units
Firm orders - USA	$ 1,570,260	2,999	$ 1,798,929	3,340	$ 1,721,689	3,172
Firm orders - Canada	244,838	577	250,167	657	215,830	477
Total firm orders	$ 1,815,098	3,576	2,049,096	3,997	1,937,519	3,649
Options - USA	3,258,210	6,800	3,566,462	7,233	3,312,589	6,928
Options - Canada	89,075	211	132,203	318	101,493	256
Total options	3,347,285	7,011	3,698,665	7,551	3,414,082	7,184
Total backlog	**$ 5,162,383**	**10,587**	**5,747,761**	**11,548**	**5,351,601**	**10,833**

Parts shipment activity during 2019 Q1

Total aftermarket shipments for 2019 Q1 increased by 7.2% compared to the previous quarter, and decreased by 8.4% compared to 2018 Q1. The lower shipments in 2019 Q1 compared to 2018 Q1 were largely due to lower bid activity during the period, primarily from the motor coach market. Aftermarket parts orders from ARBOC are not included in these figures as they are not material.

Outlook

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

Management believes the significant investments the Company has made in new product models, ZEBs, facility upgrades and LEAN manufacturing processes, parts fabrication, and IT harmonization will permit NFI to enhance its competitiveness and maintain leadership positions in core markets.

NFI Parts

NFI Parts continues to focus on numerous strategic initiatives to counter adverse market pressures and competitive intensity. These initiatives include additional focus on vendor managed inventory ("VMI") programs, an enhanced product offering, increasing parts sales for cutaway vehicles and capitalizing on the implementation of a common IT platform. Due to the nature of the aftermarket parts business, parts sales remain difficult to forecast resulting in quarter-to-quarter volatility which at times can be material.

Heavy-Duty Transit

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

ZEBs continue to be an area of growing focus for New Flyer customers. ZEBs currently represent approximately 5% of New Flyer's total backlog, with significant orders from major cities including: Toronto, Boston, Minneapolis, San Diego, New York, Seattle, Portland, Oakland, and Vancouver. To further strengthen NFI's ZEB offering, during 2019 Q1 the Company launched New Flyer Infrastructure Solutions™, a service aimed at providing safe, reliable, smart and sustainable charging and mobility solutions to public transit customers.

The increase in active heavy-duty transit bids during 2019 Q1 and management's ongoing discussions with public transit agencies throughout the U.S. and Canada supports management's belief that there will be an increase in the number of requests for proposals and public tenders issued in Fiscal 2019 and 2020, when compared to 2018 activity. While management anticipates increased bid activity, it cautions that the individual awards may be smaller in size with fewer options or shorter contract terms. Management believes this is primarily due to transit agencies assessing their fleet replacement plans and developing their approach to ZEB programs.

Motor Coach

Management estimates that U.S. and Canadian motor coach deliveries declined by 165 units, or 6.7% from 2017 to 2018, but MCI's market share increased by 2% to 45%. In 2019, management anticipates that overall market demand for private motor coaches will also decline, but that MCI should continue to gain share based on its market leading and expanding product portfolio. As part of this portfolio expansion, during 2019 Q1 MCI delivered its first J3500, a 35-foot variant of MCI's best-selling 45-foot J4500 coach, and its first D45 Commuter Rapid Transit Low Entry ("D45 CRTLE") vehicles.

Low-floor Cutaway and Medium-duty

Management anticipates continued growth in the low-floor cutaway and medium-duty bus markets driven by changing population demographics should to increase the demand for ARBOC's market leading products. While demand for low-floor cutaway vehicles remains strong, there was chassis supply disruption in 2019 Q1 for certain ARBOC vehicles which impacted ARBOC's ability to deliver products in the quarter. ARBOC continues to focus on its new medium-duty transit bus offerings, which generates a higher EBITDA/EU contribution than it's low-floor cutaway vehicles. ARBOC's 32 foot Equess is the first and only medium-duty transit bus to successfully complete the U.S. Federal Transit Administration's mandated Altoona bus testing program. The Equess is now in production and management expects this model to account for 10% to 15% of ARBOC deliveries in Fiscal 2019.

2019 Guidance

As noted in NFI's April 15th deliveries, orders and backlog release, ARBOC experienced chassis supply disruption during the first quarter for certain ARBOC low-floor cutaway vehicles which impacted NFI's ability to deliver products. While ARBOC is now consistently receiving chassis', in order to reflect the 2019 Q1 impact of lower cutaway deliveries, management has updated its Fiscal 2019 delivery guidance. No changes have been made to heavy-duty transit or motor coach delivery guidance. Management's Fiscal 2019 guidance is now revised to 4,410 EUs, a decrease of 45 low-floor cutaway EUs from previously reported expected deliveries. Management' current guidance is expected to comprise the following vehicle types :

Heavy Duty Transit	Motor Coach	Cutaway and Medium-Duty	Total
2,845 EUs	1,065 EUs	500 EUs	4,410 EUs

The Company's annual delivery schedule has an element of seasonality due to the nature of each market segment and the annual production and vacation schedule of each production facility. Overall, management anticipates deliveries will tend to be higher in 2019 Q2 and 2019 Q4 when compared to 2019 Q1 and 2019 Q3. Within NFI Parts, Management anticipates there to be typical quarterly volatility.

Fiscal 2018 results were impacted by startup losses associated with KMG commissioning its 315,000 sq. ft. Shepherdsville, KY facility, which is a strategic long-term investment intended to meet increased U.S. content requirements which take effect in October 2019. Management expects KMG will continue to negatively impact Adjusted EBITDA for the first half of 2019, prior to the facility achieving break-even status in the second half of the year and beginning to provide a positive return on the $30 million investment made to fabricate parts for New Flyer, MCI, ARBOC and NFI Parts. The Adjusted EBITDA impact of startup losses incurred in the Shepherdsville, KY facility were $2.0 million in 2019 Q1 compared to $3.4 million in 2018 Q4.

In March 2019, the Company's board of directors (the "Board") determined to increase the annual dividend rate from C$1.50 to C$1.70 per share, which represented an increase of 13.3% from the previously announced annual dividend rate of C$1.50 per share announced on May 9, 2018. The dividend increase was supported by continued expectations for strong Free Cash Flow generation and lower expected capital expenditures in Fiscal 2019. The new annual dividend rate of C$1.70 per share became effective for dividends declared after March 13, 2019.

Management believes NFI's strong free cash flow generation and low leverage position it well to continue to purchase Shares under its NCIB, which expires in June 2019, while permitting it to maintain its current dividend rate. The Company continues to consider strategic initiatives to grow and diversify the business, including through investments in its current operations and evaluation of strategic acquisition opportunities.

SELECTED QUARTERLY AND ANNUAL FINANCIAL AND OPERATING INFORMATION

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

Fiscal Period	Quarter	Revenue	Earnings from Operations	Net earnings	Adjusted EBITDA[1]	Earnings per Share	Adjusted Earnings per Share
2019 - Actual							
	Q1	$ 566,995	$ 40,906	$ 16,149	$ 60,302	$ 0.26	$ 0.26
2019 - Excluding the impact of IFRS 16							
	Q1	$ 566,995	40,543	$ 17,540	$ 57,837	$ 0.29	$ 0.29
2018	Q4	$ 662,020	60,570	$ 42,815	$ 79,868	$ 0.69	$ 0.69
	Q3	605,342	53,469	37,031	70,245	0.59	0.57
	Q2	673,025	72,063	49,740	91,400	0.81	0.83
	Q1	578,634	51,753	30,356	73,841	0.48	0.57
	Total	**$ 2,519,021**	**$ 237,855**	**$ 159,942**	**$ 315,354**	**$ 2.56**	**$ 2.68**
2017	Q4	654,560	71,495	76,118	90,488	1.21	1.25
	Q3	541,721	55,141	34,577	70,998	0.55	0.55
	Q2	613,430	70,363	42,769	85,090	0.69	0.68
	Q1	572,147	59,203	37,904	71,450	0.61	0.59
	Total	**$ 2,381,858**	**$ 256,202**	**$ 191,368**	**$ 318,026**	**$ 3.06**	**$ 3.07**

								Ending inventory comprised of:	
Fiscal Period	Quarter	New inventory, Beginning (EUs)	New inventory transferred to property, plant and equipment (EUs)	New ARBOC inventory acquired (EUs)	New Line Entry (EUs)	Deliveries (EUs)	New inventory, Ending(EUs)	Work in process (EUs)	Finished goods (EUs)[2]
2019	Q1	523	(17)	—	1,085	903	688	567	121
2018	Q4	571	9	—	1,069	1,126	523	463	60
	Q3	590	(22)	—	1,038	1,035	571	505	66
	Q2	633	(6)	—	1,122	1,159	590	496	94
	Q1	489	(3)	—	1,140	993	633	456	177
	Total	**489**	**(22)**	—	**4,369**	**4,313**	**523**	**463**	**60**
2017	Q4	566	(4)	31	964	1,068	489	392	97
	Q3	534	—	—	909	877	566	400	166
	Q2	547	—	—	978	991	534	397	137
	Q1	495	—	—	944	892	547	359	188
	Total	**495**	**(4)**	**31**	**3,795**	**3,828**	**489**	**392**	**97**

Fiscal Period	Quarter	Pre-owned inventory, Beginning (EUs)	Pre-owned inventory transferred from (to) property, plant and equipment (EUs)	Trades taken in (EUs)	Sale of Pre-owned Coaches (EUs)*	Pre-owned inventory, Ending (EUs)
2019	Q1	368	1	36	83	322
2018	Q4	337	19	199	187	368
	Q3	355	19	78	115	337
	Q2	379	(26)	104	102	355
	Q1	343	21	79	64	379
	Total	**343**	**33**	**460**	**468**	**368**
2017	Q4	323	5	161	146	343
	Q3	342	(15)	85	89	323
	Q2	370	9	73	110	342
	Q1	379	(36)	92	65	370
	Total	**379**	**(37)**	**411**	**410**	**343**

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

(2) Finished goods are comprised of completed buses ready for delivery and transit bus and coach deliveries in-transit.

* During 2019 Q1 pre-owned coach revenue was $10.0 million.

COMPARISON OF FIRST QUARTER 2019 RESULTS

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

	2019 Q1	2018 Q1	52-weeks Ended March 31, 2019	52-Weeks Ended April 1, 2018
Statement of Earnings Data				
Revenue				
Canada	$ 54,783	$ 31,979	$ 263,057	$ 138,394
U.S.	421,585	446,600	1,876,599	1,876,879
Manufacturing operations	476,368	478,579	2,139,656	2,015,273
Canada	15,833	19,482	67,013	75,110
U.S.	74,794	80,573	300,713	297,962
Aftermarket operations	90,627	100,055	367,726	373,072
Total revenue	$ 566,995	$ 578,634	$ 2,507,382	$ 2,388,345
Earnings from operations	$ 40,906	$ 51,753	$ 227,008	$ 248,752
Earnings before interest and income taxes	41,862	48,646	231,561	247,704
Net earnings	16,149	30,356	145,735	183,820
Adjusted EBITDA(2)				
Transit bus and coach manufacturing operations including realized foreign exchange losses/gains	42,390	53,931	228,083	243,593
Aftermarket operations	17,912	19,910	73,732	76,824
Total Adjusted EBITDA(2)	$ 60,302	$ 73,841	$ 301,815	$ 320,417
Statement of Earnings Data, excluding IFRS 16				
Earnings from operations	$ 40,543	$ 51,753	226,645	$ 248,752
Earnings before interest and income taxes	41,498	48,646	231,197	247,704
Net earnings	17,539	30,356	144,345	183,820
Adjusted EBITDA(2)				
Transit bus and coach manufacturing operations including realized foreign exchange losses/gains	40,478	53,931	226,171	243,593
Aftermarket operations	17,359	19,910	73,179	76,824
Total Adjusted EBITDA(2)	$ 57,837	73,841	299,350	320,417
Other Data (unaudited) **Total Deliveries (New and Pre-owned Coaches)**				
Canada	117	162	467	297
U.S.	786	831	3,756	3,632
New deliveries	903	993	4,223	3,929
Pre-owned deliveries	83	64	487	409
Total deliveries (EUs)	986	1,057	4,710	4,338
Capital expenditures	$ 8,182	$ 16,945	$ 80,600	$ 67,674
New options awarded	$ 78,350	$ 177,535	$ 432,403	$ 1,475,356
New firm orders awarded	$ 284,063	$ 160,147	$ 1,307,459	$ 1,318,999
Exercised options	53,651	240,698	813,576	953,728
Total firm orders	$ 337,714	$ 400,845	$ 2,121,035	$ 2,272,727

(Footnotes on page 18)

RECONCILIATION OF NET EARNINGS TO ADJUSTED EBITDA

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

(Unaudited, U.S. dollars in thousands)	2019 Q1	2018 Q1	52-Weeks Ended March 31, 2019	52-Weeks Ended April 1, 2018
Net earnings	16,149	30,356	145,735	183,820
Addback[1]				
Income taxes	7,655	14,540	43,826	46,132
Interest expense	18,057	3,750	41,999	17,752
Amortization	18,981	16,668	70,109	61,051
Loss (gain) on disposition of property, plant and equipment	(20)	(14)	261	57
Fair value adjustment for total return swap[7]	44	(1,631)	8,222	(3,572)
Unrealized foreign exchange loss (gain) on non-current monetary items and forward foreign exchange contracts	(935)	3,121	(2,675)	2,150
Costs associated with assessing strategic and corporate initiatives[4]	5	46	96	3,645
Past service costs[9]	—	5,810	672	5,810
Non-recurring recoveries relating to business acquisition[5]	—	—	—	(435)
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue[6]	—	266	—	532
Proportion of the total return swap realized[8]	(53)	460	(5,651)	3,134
Equity settled stock-based compensation	419	469	1,359	1,500
Release of provisions related to purchase accounting[11]	—	—	(2,138)	—
Gain on bargain purchase of subsidiary company	—	—	—	(1,159)
Adjusted EBITDA[2]	60,302	73,841	301,815	320,417
Adjusted EBITDA[2], excluding impact of IFRS 16	57,837	73,841	299,350	320,417

(Footnotes on pages 17)

RECONCILIATION OF NET EARNINGS TO ADJUSTED NET EARNINGS

In 2018 Q2, management adopted an Adjusted Net Earnings and Adjusted Earnings per Share calculation to provide a measure of the Company's performance that is aligned with the Company's calculation of Adjusted EBITDA. Adjusted Net Earnings and Adjusted Earnings per Share are used to assess the overall financial performance of the Company. Adjusted Net Earnings and Adjusted Earnings per Share are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. Accordingly, Adjusted Net Earnings and Adjusted Earnings per Share may not be comparable to similar measures presented by other issuers. Readers of this MD&A are cautioned that Adjusted Net Earnings and Adjusted Earnings per Share should not be construed as an alternative to net earnings, or net earnings per Share, determined in accordance with IFRS as indicators of the Company's performance. The Company defines and has computed Adjusted Net Earnings and Adjusted Earnings per Share under "Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Earnings per Share" above. The following tables reconcile net earnings to Adjusted Net Earnings based on the historical Financial Statements of the Company for the periods indicated.

(Unaudited, U.S. dollars in thousands other than earnings per Share and Adjusted Earnings per Share)	**2019 Q1**	**2018 Q1**	**52-Weeks Ended March 31, 2019**	**52-Weeks Ended April 1, 2018**
Net earnings	$ 16,149	30,356	$ 145,735	$ 183,820
Net earnings, excluding IFRS 16	17,539	30,356	147,125	183,820
Adjustments, net of tax (10)				
Fair value adjustments of total return swap(7)	30	(1,103)	6,247	(2,488)
Unrealized foreign exchange (gain) loss	(635)	2,110	(1,824)	1,596
Portion of the total return swap realized(8)	(36)	311	(4,309)	2,196
Costs associated with assessing strategic and corporate initiatives(4)	3	31	72	2,776
Non recurring costs (recoveries) relating to business acquisition(5)	—	—	—	(357)
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue(6)	—	180	—	391
Equity settle stock-based compensation	284	317	972	1,040
Gain on disposition of property, plant and equipment	(14)	(9)	187	42
Gain on bargain purchase option	—	—	—	(727)
Past service costs(9)	—	3,928	506	3,928
Gain on release of provision related to purchase accounting(11)	—	—	(1,623)	—
Adjusted Net Earnings	15,781	36,121	145,963	192,217
Adjusted Net Earnings, excluding IFRS 16	$ 17,171	$ 36,121	$ 147,353	$ 192,217
Earnings per Share (basic)	$ 0.26	$ 0.48	$ 2.33	$ 2.96
Earnings per Share (fully diluted)	$ 0.26	$ 0.48	$ 2.31	$ 2.93
Adjusted Earnings per Share (basic)	$ 0.26	$ 0.57	$ 2.33	$ 3.10
Adjusted Earnings per Share (fully diluted)	$ 0.26	$ 0.57	$ 2.31	$ 3.07
Earnings per Share and Adjusted Earnings per Share, excluding IFRS 16				
Earnings per Share (basic)	$ 0.29	$ 0.48	$ 2.35	$ 2.96
Earnings per Share (fully diluted)	$ 0.29	$ 0.48	$ 2.33	$ 2.93
Adjusted Earnings per Share (basic)	$ 0.28	$ 0.57	$ 2.35	$ 3.10
Adjusted Earnings per Share (fully diluted)	$ 0.28	$ 0.57	$ 2.34	$ 3.07

(Footnotes on pages 17)

RECONCILIATION OF CASH FLOW TO ADJUSTED EBITDA

(Unaudited, U.S. dollars in thousands)	2019 Q1	2018 Q1	52-Weeks Ended March 31, 2019	52-Weeks Ended April 1, 2018
Net cash generated from operating activities	$ (7,151)	$ 16,875	$ 151,118	$ 99,300
Addback[1]				
Changes in non-cash working capital items	54,857	24,873	64,328	75,605
Defined benefit funding	1,405	9,213	14,433	15,930
Defined benefit expense	(1,472)	(7,155)	(6,650)	(11,044)
Interest paid	8,347	5,216	26,204	19,159
Foreign exchange gain (loss) on cash held in foreign currency	42	279	(43)	772
Income taxes paid [3]	4,322	17,958	59,446	108,009
Costs associated with assessing strategic and corporate initiatives[4]	5	46	96	3,645
Past service costs[9]	—	5,810	672	5,810
Non-recurring costs relating to business acquisition[5]	—	—	—	(435)
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue [6]	—	266	—	532
Gain on release of provision related to purchase accounting[11]		—	(2,138)	—
Proportion of the total return swap [8]	(53)	460	(5,651)	3,134
Adjusted EBITDA[2]	$ 60,302	$ 73,841	$ 301,815	$ 320,417
Adjusted EBITDA[2], excluding IFRS 16	$ 57,837	$ 73,841	$ 299,350	$ 320,417

1. Addback items are derived from the historical Financial Statements of the Company.
2. Adjusted EBITDA is not a recognized earnings measure and does not have standardized meaning prescribed by IFRS. Therefore, Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See “Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Net Earnings per Share” above. Management believes that Adjusted EBITDA is a useful supplemental measure in evaluating performance of the Company.
3. As a result of the Company’s multinational corporate structure, income taxes paid are subject to high degrees of volatility due to the mix of U.S. and Canadian earnings and the timing of required installment payments.
4. Normalized to exclude non-recurring expenses related to the costs of assessing strategic and corporate initiatives.
5. Normalized to exclude non-recurring expenses associated with transitional costs related to acquired subsidiary companies.
6. The revaluation of ARBOC's inventory included an adjustment of $0.5 million and $0.3 million impacting net earnings in the 2018 Q1 and the 52-weeks ended April 1, 2018.
7. The fair value adjustment of the total return swap is a non-cash gain that is deducted from the definition of Adjusted EBITDA.
8. A portion of the gain from the fair value adjustment of the total return swap is added to Adjusted EBITDA to match the equivalent portion of the related deferred compensation expense recognized.
9. A new collective bargaining agreement at the Company's Winnipeg facility commenced on April 1, 2018 which included retroactive changes to New Flyer's Canadian defined benefit pension plan. The effect of the pension plan amendments was to increase the accrued benefit liability and the expected annual pension plan expense in Fiscal 2018 by $6.5 million to reflect pension benefits provided to employees for past service. In 2018 Q2, the Company completed an actuarial valuation which resulted in an adjustment of $0.7 million for past service costs.
10. The expected ETR in each respective 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.

SUMMARY OF FREE CASH FLOW

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

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

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

(Unaudited, U.S. dollars in thousands, except per Share figures)	2019 Q1	2018 Q1	52-Weeks Ended March 31, 2019	52-Weeks Ended April 1, 2018
Net cash generated from operating activities	$ (7,151)	$ 16,875	$ 151,118	$ 99,300
Changes in non-cash working capital items(3)	54,857	24,873	64,328	75,605
Interest paid(3)	8,347	5,216	26,204	19,159
Interest expense(3)	(8,489)	(5,345)	(26,690)	(19,720)
Income taxes paid(3)	4,322	17,958	59,446	108,009
Current income tax expense(3)	(9,577)	(14,912)	(50,928)	(76,755)
Principal portion of finance lease payments	(2,899)	(1,067)	(6,957)	(4,262)
Cash capital expenditures	(7,010)	(11,865)	(66,136)	(58,333)
Proceeds from disposition of property, plant and equipment	28	24	239	192
Costs associated with assessing strategic and corporate initiatives(7)	5	46	96	3,645
Non-recurring transitional costs relating to business acquisition(8)	—	—	—	(435)
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue (9)	—	266	—	532
Defined benefit funding(4)	1,405	9,213	14,433	15,930
Defined benefit expense(4)	(1,472)	(7,155)	(6,650)	(11,044)
Past service costs(11)	—	5,810	672	5,810
Proportion of the total return swap(10)	(53)	460	(5,651)	3,134
Gain on release of provision related to purchase accounting(12)	—	—	(2,138)	—
Foreign exchange gain (loss) on cash held in foreign currency(5)	42	279	(43)	772
Free Cash Flow (US$)(1)	$ 32,554	$ 40,676	$ 151,343	$ 161,539
U.S. exchange rate(2)	1.3363	1.2894	1.3298	1.2733
Free Cash Flow (C$)(1)	43,236	52,448	201,271	205,695
Free Cash Flow per Share (C$)(6)	0.7085	0.8331	3.2526	3.2772
Declared dividends on Shares (C$)	25,866	20,466	95,744	81,817
Declared dividends per Share (C$)(6)	$ 0.4239	$ 0.3250	$ 1.5378	$ 1.3050

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

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

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

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

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

(6) Per Share calculations for Free Cash Flow (C$) are determined by dividing Free Cash Flow by the total number of all issued and outstanding Shares using the weighted average over the period. The weighted average number of Shares outstanding for 2019 Q1 was 61,022,400 and 62,953,316 for 2018 Q1. The weighted average number of Shares outstanding for the 52-Weeks ended March 31, 2019 and April 1, 2018 are 62,258,729 and 62,765,854, respectively. Per Share calculations for declared dividends (C$) are determined by dividing the amount of declared dividends by the number of outstanding Shares at the respective period end date.

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

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

(9) The revaluation of ARBOC's inventory included an adjustment of $0.5 million of which $0.3 million negatively impacted 2018 Q1 net earnings.

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

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

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

Capital Allocation Policy

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

Maintaining Financial Flexibility

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

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

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

The liquidity position of $301.5 million as at March 31, 2019 is comprised of available cash of $9.6 million and $291.9 million available under the Credit Facility as compared to a liquidity position of $355.4 million at December 30, 2018. The decrease in liquidity primarily relates to the repurchase of Shares under the NCIB, capital expenditures and changes in non-cash working capital. Changes in non-cash working capital are primarily a result of seasonality and are expected to be temporary in nature. Management believes these funds, together with Share issuances, other borrowings capacity and the cash generated from the Company’s operating activities, will provide the Company with sufficient liquidity and capital resources to meet its current financial obligations as they come due, as well as provide funds for its financing requirements, capital expenditures, dividend payments and other operational needs for the foreseeable future.

Within the capital allocation policy, management has targeted to maintain leverage between 2 times and 2.5 times Adjusted EBITDA, excluding IFRS 16. The Company however, would increase leverage beyond this range to fund accretive acquisitions that are capable of reducing leverage through earnings. This was the case in 2013 when the Company acquired NABI-Optima Holdings Inc. (NABI) and again in 2015 when the Company acquired MCI. Leverage is defined as debt (net of cash) divided by Adjusted EBITDA.

There are certain financial covenants under the Credit Facility that have to be maintained. These financial covenants included an interest coverage ratio and a total leverage ratio. The total leverage ratio under the Credit Facility is 3.75 and increases to 4.25 for one year following a material acquisition. The Credit Facility terms allow for relief from the impact of changes in accounting policies. At March 31, 2019, the Company was in compliance with the ratios.

	March 31, 2019	March 31, 2019 (excluding IFRS 16)	December 30, 2018
Total Leverage Ratio (must be less than 3.75)	2.62	2.28	2.09
Interest Coverage Ratio (must be greater than 3.00)	11.31	11.88	13.39

Business Investment

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

Return of Capital to Shareholders

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

The Company`s Free Cash Flow translated to C$43.2 million in 2019 Q1 compared to declared dividends of C$25.9 million during this period. For 2018 Q1, Free Cash Flow was C$52.4 million compared to declared dividends of C$20.5 million. This resulted in a payout ratio of 60.0% in 2019 Q1 compared to 39.0% 2018 Q1.

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 a NCIB to repurchase its Shares through the facilities of the TSX and any alternative Canadian trading systems on which the Shares are traded. On January 17, 2019 the Company amended the NCIB. Pursuant to the amended NCIB, the Company is permitted to repurchase for cancellation up to 5,549,465 Shares, representing approximately 10% of the outstanding public float of Shares on June 4, 2018. The Company was permitted to repurchase Shares commencing on June 14, 2018 up to June 13, 2019, or earlier should the Company complete its repurchases prior to such date. The actual number of Shares to be purchased and the timing and pricing of any purchases under the NCIB will depend on future market conditions and potential alternative uses for cash resources. The Company may elect to modify, suspend or discontinue the program at any time without prior notice. During 2019 Q1 the Company repurchased 232,100 Shares at an average price of C$31.82 per Share for a total repurchase of C$7.4 million.

Total Capital Distributions to Shareholders (U.S. dollars in millions)	**2019 Q1**	**2018 Q1**
Dividends paid	$ 16.8	$ 16.3
NCIB Share repurchase	5.7	—
Total	$ 22.5	$ 16.3

Results of Operations

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

(Unaudited, U.S. dollars in thousands)		2019 Q1		2019 Q1 (excluding IFRS 16)		2018 Q1
Manufacturing Revenue		476,367		476,367		478,579
Aftermarket Revenue		90,628		90,628		100,055
Total Revenue	$	566,995	$	566,995	$	578,634
Earnings from Operations	$	40,906	$	40,543	$	51,753
Earnings before interest and income taxes		41,862		41,498		48,646
Earnings before income tax expense		21,406		24,827		44,896
Net earnings for the period		16,149		17,539		30,356

Revenue

Manufacturing revenue for 2019 Q1 decreased by $2.2 million, or 0.5% compared to 2018 Q1. Motor coach revenue decreased by $23.6 million, or 24.1% primarily due to 25.1% lower volumes during 2019 Q1. The lower volumes were driven by unfavorable weather during 2019 Q1, larger seasonality impact than in the 2018 Q1 and the impact of manufacturing new coach models. Medium-duty and cutaway bus revenue decreased by $3.8 million or 34.2%, primarily due to chassis supply disruption which impacted select ARBOC vehicles. The line entries replacing vehicles impacted by the chassis supply disruption are of a higher selling price. Partially offsetting these decreases were higher transit bus revenues of $25.1 million or 7.0% primarily due to sales mix and higher volumes of 3.3%. The transit volumes, although higher than the comparative period, were also negatively impacted by unfavorable weather. Management expects the lost volumes will be recovered in 2019. Higher pre-owned coach revenues also partially offset the revenue decreases by $1.9 million. The higher pre-owned coach revenue was driven a 29.7% increase in volumes, partially offset by lower selling price.

Revenue from aftermarket operations in 2019 Q1 decreased by $9.5 million, or 9.5% compared to 2018 Q1. Volumes were lower due to the loss of the Setra contract, market softness in the private coach market and fleet renewal with certain customers.

Cost of sales

(Unaudited, U.S. dollars in thousands)	2019 Q1		2019 Q1 (excluding impact of IFRS 16)		2018 Q1
Total Cost of Sales	476,408	$	476,148	$	472,027

The consolidated cost of sales excluding the impact of IFRS 16 for 2019 Q1 increased by $4.1 million or 0.8% compared to 2018 Q1.

Cost of sales from Manufacturing operations in 2019 Q1, excluding the impact of IFRS 16 were $410.5 million (86.2% of manufacturing operations revenue) compared to $400.4 million (83.7% of Manufacturing operations revenue) in 2018 Q1, an increase of $10.1 million or 2.5%. Unfavorable weather conditions during the 2019 Q1 resulted in lost production days, increased overhead inefficiency and higher overtime costs for both transit and coach businesses. Increased production of new products, and related production learning curves, also resulted in increased inefficiency and higher costs.

Cost of sales from Aftermarket operations in 2019 Q1, excluding the impact of IFRS 16 were $65.6 million (72.5% of Aftermarket revenue) compared to $71.7 million (71.6% of Aftermarket revenue) in 2018 Q1, a decrease of $6.1 million or 8.1%. The decrease is primarily due to the decrease in shipment volumes compared to 2018 Q1.

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

The consolidated SG&A for 2019 Q1 of $49.4 million (8.7% of consolidated revenue) decreased by $6.0 million or 10.8% compared $55.4 million (8.6% of consolidated revenue) in 2018 Q1. The decrease was primarily as a result past service cost of $5.8 million during 2018 Q1, which did not recur in 2019 Q1 and the $0.6 million decrease in SG&A expenses due to the impact of IFRS 16.

Realized foreign exchange loss/gain

During 2019 Q1, the Company recorded a realized foreign exchange loss of $0.3 million compared to a gain of $0.5 million in 2018 Q1. The Company uses foreign exchange forward contracts to buy Canadian dollars with U.S. dollars. The purchase of Canadian dollars using foreign exchange forward contracts at unfavorable forward rates compared to the spot rates at settlement were the primary reason for the losses.

Earnings from operations

Consolidated earnings from operations in 2019 Q1, excluding IFRS 16 were $40.5 million (7.1% of consolidated revenue) compared to $51.8 million (8.9% of consolidated revenue) in 2018 Q1, a decrease of $11.3 million or 21.8%.

Earnings from operations related to Manufacturing operations in 2019 Q1 were $24.3 million (5.2% of Manufacturing revenue) compared to $33.6 million (7.0% of manufacturing revenue) in 2018 Q1, a decrease of $9.0 million or 26.8%.

Earnings from operations related to Aftermarket operations in 2019 Q1 were $16.2 million (18.0% of Aftermarket revenue) compared to $18.1 million (18.1% of Aftermarket revenue), a decrease of $1.9 million or 10.5%.

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 Q1	2018 Q1
Unrealized (gain) loss on forward foreign exchanges contracts	$	(1,183) $	3,576
Unrealized (gain) loss on other long-term monetary assets/liabilities		247	(455)
	$	(936) $	3,121

At March 31, 2019, the Company had $55 million of foreign exchange forward contracts to buy Canadian dollars with U.S. dollars at an average agreed exchange rate of $0.76. These foreign exchange contracts range in expiry dates from April 2019 to September 2019. The related liability of $0.4 million (December 30, 2018: $1.5 million liability) is recorded on the unaudited interim condensed consolidated statements of financial position as a current derivative financial instruments liability and the $1.1 million 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 Q1, the Company recorded EBIT of $41.8 million compared to EBIT of $48.7 million in 2018 Q1. EBIT has been impacted by non-cash and non-recurring items as follows:

(Unaudited, U.S. dollars in thousands)		2019 Q1	2018 Q1
Non-cash and non-recurring charges:			
Costs associated with assessing strategic and corporate initiatives	$	5 $	46
Unrealized foreign exchange (gain) loss		(936)	3,121
Equity settled stock-based compensation		419	469
Loss (gain) on disposition of property, plant and equipment		(20)	(14)
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue		—	266
Fair value adjustment of total return swap		44	460
Past service costs		—	5,810
Amortization		18,981	16,668
Total non-cash and non-recurring charges:	$	18,493 $	26,826

Interest and finance costs

The interest and finance costs for 2019 Q1 of $18.1 million increased by $14.3 million when compared to $3.8 million in 2018 Q1. The increase is primarily due to a $9.5 million loss on the interest rate swap in 2019 Q1 compared to a gain of $2.0 million in 2018 Q1. The transition to IFRS 16 has resulted in the recognition of approximately $1.3 million of additional interest expense related to lease liabilities. Higher amounts drawn under the Company's Credit Facility further contribute to the increase in interest expense. The higher draw is primarily as a result of repurchases under the Company's NCIB and cash used for working capital purposes.

Earnings before income taxes ("EBT")

EBT for 2019 Q1 of $23.8 million decreased compared to EBT of $44.9 million in 2018 Q1 . 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 Q1 was $7.7 million compared to $14.5 million in 2018 Q1. The ETR for 2019 Q1 of 32.2% was consistent with the effective tax rate of 32.4% in 2018 Q1. The reduction in the overall income tax expense is primarily due to lower EBT.

Net earnings

The Company reported net earnings of $16.1 million in 2019 Q1, a decrease of 47.0% compared to net earnings of $30.4 million in 2018 Q1.

Net earnings (Unaudited U.S. dollars in millions)	**2019 Q1**	**2019 Q1 (excluding IFRS 16)**	**2018 Q1**
Earnings from operations	$ 40.9	$ 40.5	$ 51.8
Non-cash gain (loss)	0.9	0.9	(3.1)
Interest expense	(18.1)	(16.6)	(3.8)
Income tax expense	(7.7)	(7.3)	(14.5)
Net earnings	$ 16.1	$ 17.5	$ 30.4
Net earnings per Share (basic)	$ 0.26	$ 0.29	$ 0.48
Net earnings per Share (fully diluted)	$ 0.26	$ 0.29	$ 0.48

The Company's net earnings per Share in 2019 Q1, excluding the impact of IFRS 16, of $0.29 decreased from net earnings per Share of $0.48 generated in 2018 Q1. Net earnings were lower in 2019 Q1 for the reasons discussed throughout the Results of Operation section in this MD&A, which decreased earnings per Share in 2019 Q1. Partially offsetting the impact of these decreases in net earnings per Share were lower weighted average common Shares as disclosed in note 8 Financial Statements.

Cash Flow

The cash flows of the Company are summarized as follows:

(Unaudited Quarterly Results, U.S. dollars in thousands)	**2019 Q1**	**2018 Q1**
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	$ 60,375	$ 64,922
Interest paid	(8,347)	(5,216)
Income taxes paid	(4,322)	(17,958)
Net cash earnings	47,706	41,748
Cash flow used in changes in working capital	(54,857)	(24,873)
Cash flow generated from operating activities	(7,151)	16,875
Cash flow used in financing activities	12,931	19,924
Cash flow used in investing activities	(6,998)	(11,846)

Cash flows from operating activities

The 2019 Q1 net operating cash outflow of $7.2 million is comprised of $47.7 million of net cash earnings partially offset by outflows in non-cash working capital of $54.9 million. Management anticipates the working capital to reverse during the year as it primarily relates to weather related deferred deliveries and temporary production issues. The 2018 Q1 net operating cash inflow of $16.9 million is comprised of $41.7 million of net cash earnings and a decrease in cash used for working capital of $24.9 million.

Cash flow from financing activities

The cash outflows during 2019 Q1 primarily related to proceeds from long-term debt related to the Credit Facility and capital returned to shareholders through dividends and Shares repurchased under the NCIB.

Cash flow from investing activities

(Unaudited Quarterly Results, U.S. dollars in thousands)	**2019 Q1**	**2018 Q1**
Acquisition of intangible assets	$ (17)	$ (5)
Proceeds from disposition of property, plant and equipment	28	24
Acquisition of property, plant and equipment	(7,010)	(11,865)
Cash from investing activities	$ (6,999)	$ (11,846)

2019 Q1 investing activities are lower than 2018 Q1 primarily due to lower purchases of property, plant and equipment during 2019 Q1 compared to 2018 Q1. Capital expenditures for 2019 are planned to be lower than 2018.

Interest rate risk

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

The fair value of the interest rate swap liability of $2.9 million at 2019 Q1(2018 Q4: $6.6 million asset) was recorded on the unaudited interim condensed consolidated statements of financial position as a derivative financial instruments liability and the change in fair value has been recorded as finance costs for the reported period.

Credit risk

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

In both the U.S. and Canada 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 cash transactions require payment on delivery.

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

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

	March 31, 2019	December 30, 2018
Current, including holdbacks	$ 330,396	$ 358,729
Past due amounts but not impaired		
1 – 60 days	15,555	24,153
Greater than 60 days	4,200	4,830
Less: allowance for doubtful accounts	(345)	(226)
Total accounts receivables, net	$ 349,806	$ 387,486

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

Commitments and Contractual Obligations

The following table describes the Company’s maturity analysis of the undiscounted cash flows of certain non-current financial liabilities and leases as at March 31, 2019:

U.S. dollars in thousands	**Total**	**2019**	**2020**	**2021**	**2022**	**2023**	**Post 2023**
Leases	219,592	15,297	18,804	17,396	16,556	14,748	136,791
Accrued benefit liability	8,513	8,208	305	—	—	—	—
	$ 228,105	$ 23,505	$ 19,109	$ 17,396	$ 16,556	$ 14,748	$ 136,791

As at March 31, 2019, outstanding surety bonds guaranteed by the Company amounted to $428.4 million, representing an increase compared to $352.7 million at April 1, 2018. The estimated maturity dates of the surety bonds outstanding at March 31, 2019 range from April 2019 to August 2022. 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 March 31, 2019, letters of credit amounting to $28.3 million (December 30, 2018: $13.8 million) remained outstanding as security for the contractual obligations of the Company. $14.4 million of the outstanding letters of credit were held outside the Credit Facility.

The Company does not have any off-balance sheet arrangement or any material capital asset commitments at March 31, 2019.

Stock Option Plan

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

Option Grant dates	Number	Exercised	Expired	Vested	Unvested	Expiry date	Exercise price	Fair Value at grant date
March 26, 2013	490,356	(468,117)	—	(22,239)	—	March 26, 2021	C$10.20	C$1.55
December 30, 2013	612,050	(522,298)	(9,631)	(80,121)	—	December 30, 2021	C$10.57	C$1.44
December 28, 2014	499,984	(169,297)	(11,368)	(319,319)	—	December 28, 2022	C$13.45	C$1.83
December 28, 2015	221,888	(12,832)	—	(153,584)	55,472	December 28, 2023	C$26.75	C$4.21
September 8, 2016	2,171	—	—	(1,629)	542	September 8, 2024	C$42.83	C$8.06
January 3, 2017	151,419	(1,610)	(807)	(74,107)	74,895	January 3, 2025	C$40.84	C$7.74
January 2, 2018	152,833	—	(1,411)	(38,225)	113,197	January 2, 2026	C$54.00	C$9.53
January 2, 2019	284,674	—	(3,431)	—	281,243	January 2, 2017	C$33.43	C$5.01
	2,415,375	(1,174,154)	(26,648)	(689,224)	525,349		C$28.58	

The following reconciles the stock options outstanding:

	2019 Q1		2018 Q1	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance at beginning of period	946,306	C$27.02	979,333	C$19.94
Granted during the period	284,674	C$33.43	152,883	C$54.00
Expired during the period	(5,649)	C$39.63	—	—
Exercised during the period	(10,758)	C$13.45	(16,831)	C$17.44
Balance at end of period	1,214,573	C$28.58	1,115,385	C$24.65

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 $234 thousand of director restricted Share units ("Director RSUs") in 2019 Q1. Of these Director RSUs issued, approximately $127 thousand were exercised and exchanged for 4,991 Shares.

Critical accounting estimates and judgments

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

New and amended standards adopted by the Company

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

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

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

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

The transition adjustment is shown in below.

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

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

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

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

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

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

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

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

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

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

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

Controls and Procedures

Internal Controls over Financial Reporting

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

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

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

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

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

Disclosure Controls

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

Unaudited Interim Condensed Consolidated Financial Statements of

NFI GROUP INC.

March 31, 2019

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NFI GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET EARNINGS AND TOTAL COMPREHENSIVE INCOME
For the 13-Weeks ended March 31, 2019 ("2019 Q1") and 13-Weeks ended April 1, 2018 ("2018 Q1")
(unaudited, in thousands of U.S. dollars except per share figures)

		2019 Q1		2018 Q1
Revenue (note 12)	$	566,995	$	578,634
Cost of sales (note 4)		476,408		472,027
Gross profit		90,587		106,607
Sales, general and administration costs and other operating expenses		49,357		55,357
Foreign exchange loss (gain)		324		(503)
Earnings from operations		40,906		51,753
Gain on disposition of property, plant and equipment		20		14
Unrealized foreign exchange gain (loss) on non-current monetary items		935		(3,121)
Earnings before interest and income tax		41,861		48,646
Interest and finance costs				
Interest on long-term debt		6,569		4,591
Accretion in carrying value of long-term debt (note 7)		113		395
Interest expense on lease liability (note 2)		1,496		—
Other interest and bank charges		423		754
Fair market value loss (gain) on interest rate swap		9,456		(1,990)
		18,057		3,750
Earnings before income tax expense		23,804		44,896
Income tax expense (note 6)		7,655		14,540
Net earnings for the year	$	16,149	$	30,356
Other comprehensive income (loss)				
Actuarial income (loss) on defined benefit pension plan - this item will not be reclassified subsequently to profit or loss		(3,901)		2,080
Total comprehensive income for the year	$	12,248		32,436
Net earnings per share (basic) (note 9)	$	0.26	$	0.48
Net earnings per share (diluted) (note 9)	$	0.26	$	0.48

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

NFI GROUP INC.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at March 31, 2019
(unaudited, in thousands of U.S. dollars)

	March 31, 2019	December 30, 2018
Assets		
Current		
Cash	$ 9,643	$ 10,820
Accounts receivable (note 3,11)	349,806	387,486
Income tax receivable	29,413	34,115
Inventories (note 4)	488,067	424,685
Prepaid expenses and deposits	10,510	10,434
	887,439	867,540
Property, plant and equipment (note 2)	226,713	247,943
Right-of-use asset (note 2)	128,504	—
Derivative financial instruments (note 11 b,c)	—	6,592
Goodwill and intangible assets	942,999	951,010
Other long term asset (note 2,5)	19,582	1,052
	$ 2,205,237	$ 2,074,137
Liabilities		
Current		
Accounts payable and accrued liabilities (note 2)	$ 341,924	$ 366,517
Derivative financial instruments (note 11 b,c)	401	1,542
Current portion of long-term liabilities (note 15)	103,349	80,310
	445,674	448,369
Accrued benefit liability	10,757	5,265
Obligations under leases (note 2)	122,359	19,087
Deferred compensation obligation	3,406	4,979
Deferred revenue	9,863	10,443
Other long-term liabilities	—	1,008
Provisions (note 14)	65,435	64,946
Deferred tax liabilities	79,907	83,121
Derivative financial instruments (note 11 b,c)	2,865	—
Long-term debt (note 7)	677,732	639,432
	$ 1,417,998	$ 1,276,650
Commitments and contingencies (note 13)		
Shareholders' equity		
Share capital (note 8)	644,081	654,307
Stock option and restricted share unit reserve	6,077	5,796
Accumulated other comprehensive loss	(10,607)	(6,706)
Treasury shares (note 8)	—	(8,835)
Retained earnings	147,688	152,925
	$ 787,239	$ 797,487
	$ 2,205,237	$ 2,074,137

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

NFI GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the 13-Weeks ended March 31, 2019
(unaudited, in thousands of U.S. dollars)

	Share Capital	Stock Option and Restricted Share Unit Reserve	Accumulated Other Comprehensive Loss	Treasury shares	Retained Earnings (Deficit)	Total Shareholders' Equity
Balance, December 31, 2017	**$ 665,602**	**$ 4,724**	**$ (9,876)**	**$ —**	**$ 107,379**	**$ 767,829**
Net earnings	—	—	—	—	30,356	30,356
Other comprehensive income	—	—	2,080	—	—	2,080
Dividends declared on common shares	—	—	—	—	(15,872)	(15,872)
Share-based compensation, net of deferred income taxes	—	544	—	—	—	544
Shares issued	194	(194)	—	—	—	—
Balance, April 1, 2018	**665,796**	**5,074**	**(7,796)**	**—**	**121,863**	**784,937**
Net earnings	—	—	—	—	129,586	129,586
Other comprehensive income	—	—	1,090	—	—	1,090
Dividends declared on common shares	—	—	—	—	(52,774)	(52,774)
Repurchase and cancellation of common shares	(13,973)	—	—	—	(32,234)	(46,207)
Change in share purchase commitment	—	—	—	(8,835)	(13,516)	(22,351)
Share-based compensation, net of deferred income taxes	—	1,517	—	—	—	1,517
Shares issued	2,484	(795)	—	—	—	1,689
Balance, December 30, 2018	**$ 654,307**	**$ 5,796**	**$ (6,706)**	**$ (8,835)**	**$ 152,925**	**$ 797,487**
Net earnings					**16,149**	**16,149**
Other comprehensive income	**—**	**—**	**(3,901)**	**—**	**—**	**(3,901)**
Dividends declared on common shares	**—**	**—**	**—**	**—**	**(19,357)**	**(19,357)**
Repurchase and cancellation of common shares	**(10,451)**	**—**	**—**	**8,835**	**(2,029)**	**(3,645)**
Share-based compensation, net of deferred income taxes	**—**	**419**	**—**	**—**	**—**	**419**
Shares issued	**225**	**(138)**	**—**	**—**	**—**	**87**
Balance, March 31, 2019	**$ 644,081**	**$ 6,077**	**$ (10,607)**	**$ —**	**$ 147,688**	**$ 787,239**

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

NFI GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the 13-Weeks Ended March 31, 2019 ("2019 Q1") and the 13-Weeks Ended April 1, 2018 ("2018 Q1")

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

	2019 Q1	2018 Q1
Operating activities		
Net earnings for the period	$ 16,149	$ 30,356
Income tax expense	7,655	14,540
Depreciation of plant and equipment	10,954	7,068
Amortization of intangible assets	8,027	9,600
Share-based compensation	419	469
Interest and finance costs recognized in profit or loss	18,057	3,750
Fair value adjustment for total return swap	44	(1,631)
Unrealized foreign exchange loss (gain) on non-current monetary items	(935)	3,121
Foreign exchange gain on cash held in foreign currency	(42)	(279)
Loss (gain) on disposition of property, plant and equipment	(20)	(14)
Defined benefit expense	1,472	7,155
Defined benefit funding	(1,405)	(9,213)
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	60,375	64,922
Changes in non-cash working capital items (note 10)	(54,857)	(24,873)
Cash generated from operating activities before interest and income taxes paid	5,518	40,049
Interest paid	(8,347)	(5,216)
Income taxes paid	(4,322)	(17,958)
Net cash generated from operating activities	(7,151)	16,875
Financing activities		
Debt issue costs	(13)	—
Repayment of obligations under leases	(2,899)	(1,067)
Proceeds from long-term debt	38,200	37,300
Share issuance	109	—
Repurchase of shares	(5,682)	—
Dividends paid	(16,784)	(16,309)
Net cash used in financing activities	12,931	19,924
Investing activities		
Acquisition of intangible assets	(17)	(5)
Proceeds from disposition of property, plant and equipment	28	24
Acquisition of property, plant and equipment	(7,010)	(11,865)
Net cash used in investing activities	(6,999)	(11,846)
Effect of foreign exchange rate on cash	42	279
Increase (decrease) in cash	(1,177)	25,232
(Bank indebtedness) cash — beginning of period	10,820	(9,938)
Cash (Bank indebtedness) — end of period	$ 9,643	$ 15,294

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

1. CORPORATE INFORMATION

NFI Group Inc. ("NFI" or the "Company") was incorporated on June 16, 2005 as New Flyer Industries Inc. under the laws of the Province of Ontario. The name of the Company was changed to "NFI Group Inc." on May 14, 2018 to better reflect the multi-platform nature of the Company's business. NFI is the largest transit bus and motor coach manufacturer and parts distributor in North America with fabrication, manufacturing, distribution and service centers in Canada and the United States. The Company provides a comprehensive suite of mass transportation solutions under several brands: New Flyer® (heavy-duty transit buses), MCI® (motor coaches), ARBOC® (low-floor cutaway and medium-duty buses) and NFI Parts™ (bus and coach parts and support).

The Company's common shares (the "Shares") are listed on the Toronto Stock Exchange ("TSX") under the symbol "NFI".

These unaudited interim condensed consolidated financial statements (the "Statements") were approved by the Company's board of directors (the "Board") on May 8, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Statement of Compliance

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

2.2 Basis of Presentation

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

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

2.3 Principles of consolidation

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

2.4 New and amended standards adopted by the Company

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

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

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

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

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

The transition adjustment is shown in below.

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

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

Operating lease commitments at December 30, 2018	$ 70,690
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Recognition exemptions for short-term and low-value leases	(573)
Lease obligations recognized at December 31, 2018	$ 110,223

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

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

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

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

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

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

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

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

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

2.5 Fiscal Periods

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

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

3. ACCOUNTS RECEIVABLE

	March 31, 2019	December 30, 2018
Trade, net of allowance for doubtful accounts	$ 325,130	$ 358,441
Other	24,676	29,045
	$ 349,806	$ 387,486

4. INVENTORIES

	March 31, 2019	December 30, 2018
Raw materials	$ 216,391	$ 213,117
Work in process	196,839	150,654
Finished goods	74,837	60,914
	$ 488,067	$ 424,685

	2019 Q1	2018 Q1
Cost of inventories recognized as expense and included in cost of sales	$ 469,631	$ 459,213
Write-down of inventory to net realizable value in cost of sales	1,712	1,950
Reversals of a previous write-down in inventory	—	1,654

5. OTHER LONG-TERM ASSETS

	March 31, 2019	December 30, 2018
Long-term restricted deposit (note 13b)	$ 14,490	$ —
Long-term accounts receivable	5,092	1,052
	$ 19,582	$ 1,052

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

6. INCOME TAX EXPENSE

The income tax expense for 2019 Q1 was $7,655 compared to $14,540 in 2018 Q1. The Effective Tax Rate ("ETR") for 2019 Q1 was 32.2% and the ETR for 2018 Q1 was 32.4%. The reduction in the overall income tax expense is primarily due to lower earnings before taxes.

7. LONG-TERM DEBT

	Face Value	Unamortized Transaction Costs	**Net Book Value March 31, 2019**	Net Book Value December 30, 2018
Revolving Credit Facility, Unsecured (“Revolver”)	679,800	2,068	677,732	639,432

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

The unsecured Credit Facility has a total borrowing limit of $1.0 billion, which includes a $100 million letter-of-credit facility and a $250 million accordion feature. $28.3 million of outstanding letters-of-credit were drawn at March 31, 2019. The Credit Facility bears interest at a rate equal to LIBOR or a U.S. base rate for loans denominated in U.S. dollars and a Canadian prime rate or bankers' acceptance rate for loans denominated in Canadian dollars, plus an applicable margin to those rates and matures on October 25, 2023. Amounts drawn under the Credit Facility bear interest at a rate equal to LIBOR or a U.S. base rate for loans denominated in U.S. dollars and a Canadian prime rate or bankers' acceptance rate for loans denominated in Canadian dollars, plus an applicable margin to those rates.

8. SHARE CAPITAL

	March 31, 2019	December 30, 2018
Authorized - Unlimited		
Issued - 60,862,299 Common Shares (December 30, 2018: 61,832,625)	$ 644,081	$ 654,307

Share repurchase

On June 11, 2018, the Company announced that the TSX had accepted a notice filed by the Company of its intention to implement a Normal Course Issuer Bid ("NCIB") to repurchase its Shares through the facilities of the TSX and any alternative Canadian trading systems on which the Shares are traded. On January 17, 2019 the Company amended the NCIB. Pursuant to the amended NCIB, the Company is permitted to repurchase for cancellation up to 5,549,465 Shares, representing approximately 10% of the outstanding public float of Shares on June 4, 2018. The Company was permitted to repurchase Shares commencing on June 14, 2018 up to June 13, 2019, or earlier should the Company complete its repurchases prior to such date. The actual number of Shares to be purchased and the timing and pricing of any purchases under the NCIB will depend on future market conditions and potential alternative uses for cash resources. The Company may elect to modify, suspend or discontinue the program at any time without prior notice. During 2019 Q1 the Company repurchased 232,100 Shares at an average price of C$31.82 per Share for a total repurchase of C$7.4 million. The Company canceled 986,075 Shares during 2019 Q1, including the 232,100 Share purchased in 2019 Q1 and 753,975 Shares that were purchased in 2018 Q4.

The following is a summary of changes to the issued and outstanding capital stock during the period:

Shares	Number (000s)	Net Book Value
Balance – December 30, 2018	61,833	$ 654,307
Stock options exercised	10	109
Restricted share units exercised	5	116
Repurchase and cancellation of Shares	(986)	(10,451)
Balance – March 31, 2019	60,862	$ 644,081

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

9. EARNINGS PER SHARE

	2019 Q1	2018 Q1
Net earnings attributable to equity holders	$ 16,149	$ 30,356
Weighted average number of Shares in issue	61,022,400	62,953,316
Add: net incremental Shares from assumed conversion of stock options and exercise of restricted share units	297,107	634,222
Weighted average number of Shares for diluted earnings per Share	61,319,507	63,587,538
Net earnings per Share (basic)	$ 0.2646	$ 0.4822
Net earnings per Share (diluted)	$ 0.2634	$ 0.4774

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

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

10. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	2019 Q1	2018 Q1
Accounts receivable	$ 37,680	$ 953
Income tax receivable	4,702	4,089
Inventories	(69,159)	(59,338)
Prepaid expenses and deposits	(76)	1,222
Accounts payable and accrued liabilities	(20,838)	39,699
Income tax payable	0	(7,328)
Deferred revenue	18,454	7,237
Provisions	(69)	(2,344)
Long-term restricted deposit	(14,490)	0
Other	(11,061)	(9,063)
	$ (54,857)	$ (24,873)

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Financial Instruments

The Company has made the following classifications:

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

(b) Fair value measurement of financial instruments

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

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

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

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

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

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

	March 31, 2019		
	Fair value level	Carrying amount	Fair value
Financial assets recorded at fair value			
Cash	Level 1	$ 9,463	$ 9,463
Long term restricted cash	Level 1	$ 14,490	$ 14,490
Financial liabilities recorded at fair value			
Total return swap contracts	Level 2	$ 42	$ 42
Foreign exchange forward contracts	Level 2	$ 359	$ 359
Derivative financial instrument liabilities - current		$ 401	$ 401
Interest rate swap	Level 2	$ 2,865	$ 2,865
Derivative financial instrument liabilities - long term		$ 2,865	$ 2,865

(c) Risk Management

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

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

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

The Company entered into a total return swap transaction to hedge the exposure associated with increases in its share value on a portion of the outstanding performance share units, restricted share units, and deferred share units. The total return swap has a re-investment feature which increases the number of Shares in the swap when dividends are paid by the Company. As at March 31, 2019 the Company held a position of 223,946 Shares at a weighted average price of C$33.28. The Company does not apply hedge accounting to these derivative instruments and as such, gains and losses arising from marking these derivatives to market are recognized in net earnings in the period in which they arise.

At March 31, 2019, the Company had $55 million of foreign exchange forward contracts to buy Canadian dollars with U.S. dollars at an average agreed exchange rate of $0.76. These foreign exchange contracts range in expiry dates from April 2019 to September 2019. The related liability of $0.4 million (December 30, 2018: $1.5 million liability) is recorded on the unaudited interim condensed consolidated statements of financial position as a current derivative financial instruments liability and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the unaudited interim condensed consolidated statements of net earnings and total comprehensive income.

(d) Liquidity Management

The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At March 31, 2019, the Company had a cash balance of $9,643 (December 30, 2018: $10,820), the $679,800 Revolver due in 2023 (December 30, 2018: $641,600 Revolver) and $28,274 of outstanding letters of credit (December 31, 2018: $13,769). $14,490 of the letters of credit were outside of the Credit Facility and are fully collateralized. The unsecured Credit Facility has a total borrowing limit of $1.0 billion, which includes a $100 million letter-of-credit facility and a $250 million accordion feature.

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

The following table outlines the maturity analysis of the undiscounted cash flows of certain non-financial liabilities and leases as at March 31, 2019:

US dollars in thousands	Total	2019	2020	2021	2022	2023	Post 2023
Leases	219,592	15,297	18,804	17,396	16,556	14,748	136,791
Accrued benefit liability	8,513	8,208	305	—	—	—	—
	$ 228,105	$ 23,505	$ 19,109	$ 17,396	$ 16,556	$ 14,748	$ 136,791

Credit risk

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

Additionally, up to 80% of the capital cost of new transit buses and coaches sold to public transit authorities and municipalities typically come from the U.S. Federal Transit Administration, while the remaining 20% comes from state and municipal sources. The maximum exposure to the risk of credit for accounts receivable corresponds to their book value. Historically, the Company has experienced nominal bad debts as a result of the customer base being principally comprised of municipal and other local transit authorities. During 2019 Q1, the Company recorded a bad debt expense of $45.

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

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

	March 31, 2019	December 30, 2018
Current, including holdbacks	$ 330,396	$ 358,729
Past due amounts but not impaired		
1 – 60 days	15,555	24,153
Greater than 60 days	4,200	4,830
Less: Allowance for doubtful accounts	(345)	(226)
Total accounts receivables, net	$ 349,806	$ 387,486

As at March 31, 2019, there was no amount that would otherwise be past due or impaired whose terms have been renegotiated.

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

There are certain financial covenants under the Credit Facility that must be maintained. These financial covenants include an interest coverage ratio and total leverage ratio. At March 31, 2019, the Company was in compliance with the ratios. The results of the financial covenants tests as of such date are as follows:

	March 31, 2019	March 31, 2019 (excluding IFRS 16)	December 30, 2018
Total Leverage Ratio (must be less than 3.75)	2.62	2.28	2.09
Interest Coverage Ratio (must be greater than 3.00)	11.31	11.88	13.39

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

(e) Capital management

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

There are certain financial covenants under the Credit Facility that must be maintained. These financial covenants include an interest coverage ratio and total leverage ratio. In accordance with terms of the Credit Facility. At March 31, 2019, the Company was in compliance with the ratios.

12. SEGMENT INFORMATION

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

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

The Manufacturing Operations segment has recorded vendor rebates of $2,217 (2017: $235), which have been recognized into earnings during 2019, but for which the full requirements for entitlement to these rebates have not yet been met.

The Aftermarket Operations segment derives its revenue from the sale of aftermarket parts for transit buses and motor coaches.

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

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

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

Segment information about profits and assets is as follows:

	2019 Q1			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 476,367	$ 90,628	—	$ 566,995
Operating costs and expenses	444,394	75,275	23,522	543,191
Earnings (loss) before income tax expense	31,973	15,353	(23,522)	23,804
Total assets	1,521,882	432,569	250,786	2,205,237
Addition of capital expenditures	6,868	142	—	7,010
Addition of goodwill and intangibles assets	17	—	—	17
Goodwill	304,804	131,474	—	436,278

	2018 Q1			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 478,579	$ 100,055	—	578,634
Operating costs and expenses	437,037	81,925	14,776	533,738
Earnings (loss) before income tax expense	41,542	18,130	(14,776)	44,896
Total assets	1,367,950	401,831	275,471	2,045,252
Addition of capital expenditures	10,857	1,008	—	11,865
Addition of goodwill and intangibles assets	5	0	—	5
Goodwill	304,850	131,474	—	436,324

The Company's revenue by geography is summarized below:

	2019 Q1	2018 Q1
United States	$ 496,379	$ 527,173
Canada	70,616	51,461
Total	$ 566,995	$ 578,634

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

	2019 Q1	2018Q1
Transit buses	382,926	$ 357,890
Motor coaches	74,135	97,650
Medium-duty and cutaway buses	7,264	11,049
Pre-owned coach	10,008	8,133
Fiberglass reinforced polymer components	2,034	3,857
Manufacturing revenue	$ 476,367	$ 478,579

13. COMMITMENTS AND CONTINGENCIES

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

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

The Company's guarantee under each bond issued by the surety companies expires on completion of obligations under the customer contract to which the bond relates. The estimated maturity dates of the surety bonds outstanding at March 31, 2019 range from April 2019 to December 2022.

At December 30, 2018, outstanding surety bonds guaranteed by the Company totaled $428,384 (December 30. 2018: $394,428). The Company has not recorded any liability under these guarantees, as management believes that no material events of default exist under any contracts with customers.

(b) The Company has a letter of credit sub-facility of $100,000 as part of the Credit Facility (December 30, 2018: $100,000). As at March 31, 2019, letters of credit totaling $28,274 (December 30, 2018: $13,769) remain outstanding as security for contractual obligations of the Company. Of these letters of credit $14,490 (note 5) are outside of the Credit Facility and are fully collateralized.

As at March 31, 2019, management believes that the Company was in compliance in all material respects with all applicable contractual obligations and the Company has not provided for any costs associated with these letters of credit.

14. PROVISIONS

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

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

		Insurance Risk Retention		Warranty		Total
December 30, 2018	$	24,504		76,280		100,784
Additions		2,130		11,145		13,275
Amounts used/realized		(920)		(12,468)		(13,388)
Unwinding of discount and effect of changes in the discount rate		—		(4)		(4)
Exchange rate differences		—		60		60
	$	25,714	$	75,013	$	100,727
Less current portion		3,000		32,292		35,292
March 31, 2019	$	22,714	$	42,721	$	65,435

15. CURRENT PORTION OF LONG TERM LIABILITIES

		March 31, 2019		December 30, 2018
Deferred revenue	$	50,893	$	31,859
Provisions (note 14)		35,292		35,838
Other long-term liabilities		981		—
Deferred compensation obligation		2,840		4,677
Obligations under leases (note 2)		13,343		7,936
	$	103,349	$	80,310