



Financial Results Fiscal 2020

March 4, 2021



Leading the **ZE**volution.™



NFI continues **changing the game.**



Leading the **ZE**volution.™



We continue to **innovate and
drive forward.**



Leading the **ZE**volution.™



We provide comprehensive
mobility solutions.



We have **more than 105,000 buses**
in service in **11 countries**
around the world.



Leading the **ZE**volution.™



**We are leading the evolution to a
zero-emission future.**

NOTES TO READERS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS AND 52-WEEKS ENDED DECEMBER 27, 2020

Information in this Management's Discussion and Analysis ("MD&A") relating to the financial condition and results of operations of NFI Group Inc. ("NFI" or the "Company") is supplemental to, and should be read in conjunction with, NFI's audited consolidated financial statements (including notes) (the "Financial Statements") for the 52-week period ended December 27, 2020.

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 such forward-looking statements, including, but not limited to, the factors described in the Company's public filings available on SEDAR at www.sedar.com. See "Forward-Looking Statements" in Appendix A. 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 30, 2019 to December 27, 2020 ("Fiscal 2020")				Period from December 31, 2018 to December 29, 2019 ("Fiscal 2019")			
		Period End Date	# of Calendar Weeks			Period End Date	# of Calendar Weeks
Quarter 1	March 29, 2020	("2020 Q1")	13		March 31, 2019	("2019 Q1")	13
Quarter 2	June 28, 2020	("2020 Q2")	13		June 30, 2019	("2019 Q2")	13
Quarter 3	September 27, 2020	("2020 Q3")	13		September 29, 2019	("2019 Q3")	13
Quarter 4	December 27, 2020	("2020 Q4")	13		December 29, 2019	("2019 Q4")	13
Fiscal year	December 27, 2020		52		December 29, 2019		52

The quarterly and annual reporting periods for Fiscal 2021 will be as follows:

Period from December 28, 2020 to January 2, 2022 ("Fiscal 2021")			
		Period End Date	# of Calendar Weeks
Quarter 1	March 28, 2021	("2021 Q1")	13
Quarter 2	June 27, 2021	("2021 Q2")	13
Quarter 3	September 26, 2021	("2021 Q3")	13
Quarter 4	January 2, 2022	("2021 Q4")	14
Fiscal year	January 2, 2022		53

NOTES TO READERS

Specific references and definitions are used throughout this MD&A, please see "Meaning of Certain References" and "Definitions of Adjusted EBITDA, return-on-invested-capital ("ROIC"), Free Cash Flow, Adjusted Net Earnings, Adjusted Earnings per Share, and Regions including: North America, UK and Europe, Asia Pacific, and Other" in Appendix A. References to LTM mean last-twelve months ("LTM"). Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Earnings per Share are non-IFRS measures and should not be considered substitutes or alternatives for IFRS measures. These are not defined terms under IFRS and do not have standard meanings, so may not be a reliable way to compare NFI to other companies. See the heading entitled: "Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings, Adjusted Earnings Per Share, regions including: North America, UK and Europe, Asia Pacific, and Other" in Appendix A for information about these measures, including how they are calculated and the way in which they are used.

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

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

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



Dear Shareholders,

2020 is a year that none of us will ever forget.

As we began the year, we had a plan that would see us deliver record results, and were off to a great start with a solid first quarter. Then the COVID-19 global pandemic became our reality. As the pandemic took hold in our geographies, few of us could ever have imagined the dramatic impact it would have on our world, our customers, our people, and our business.

While **2020 was a period of challenges**, including an immediate standstill of private coach operations, delayed public customer orders, idled facilities and furloughs, organizational changes, economic shocks, closed borders, and stay-at-home orders, we were extremely proud to see the response of the NFI team around the world. In the midst of an unprecedented global pandemic, our people focused on the health and safety of their fellow team members and on delivering for our customers. **Transit is the spinal cord of cities**, and most of our customers provide an essential service - one that connects cities and people, drives economic activity, and improves congestion and air quality. Throughout the pandemic, these operators delivered for their customers and ensured that, while the world stopped, public transit kept moving. We're proud to be able to support these individuals in everything they do, and we remain committed to ensuring our vehicles perform safely, reliably and meet all of our customers' expectations.

Our team worked tirelessly to achieve a balance in our decision-making and in dealing with the realities of the pandemic. This included some very difficult decisions to reduce our operating costs, headcount and facility footprint. While there were no easy answers, our people responded to the challenge and drove the NFI Forward initiative ("NFI Forward"), a group-wide series of projects that is expected to transition NFI from a holding company structure into a more integrated and efficient systems-driven organization.

The pandemic continues to disrupt all aspects of our daily lives, but there is hope on the horizon. We are seeing ridership start to return and vaccines are now being deployed. There is enthusiasm and **desire to re-open cities and start moving again**. At NFI, we are committed to doing everything we can to make sure our vehicles are ready for the recovery by offering products to increase onboard safety and cleanliness for our customers.

Looking beyond the pandemic, we held our annual Investor Day on January 11, 2021, where we outlined the future of NFI and had an opportunity to successfully connect virtually with our stakeholder community. We received fantastic feedback from the event, so much so that we will aim to make this an annual virtual event to continue to provide you with quality information, insights and updates.

NFI is Leading the ZEolution™: the evolution to a zero-emission future. *(continued->)*

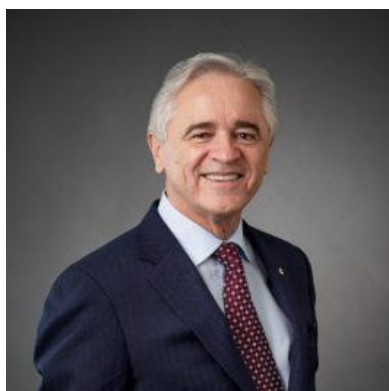
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At NFI, we don't speak about hypotheticals or unfounded promises of growth or share or margin. **We're the leaders, and we deliver upon our commitments.** We will continue to innovate and lead the way to a zero-emission bus future. We have the largest vehicle production capacity in North America and the UK, the broadest propulsion offering, the deepest customer relationships and unmatched aftermarket and technical support. **And we aren't just a bus manufacturer—we are a mobility solutions provider.** We now offer telematics, connected vehicles, infrastructure solutions, aftermarket, battery-leasing, automated vehicles and advanced driver assistance systems. Our history is painted with innovation, and our focus on innovation will continue as we move forward and continuously disrupt ourselves - as we've done for more than a century.

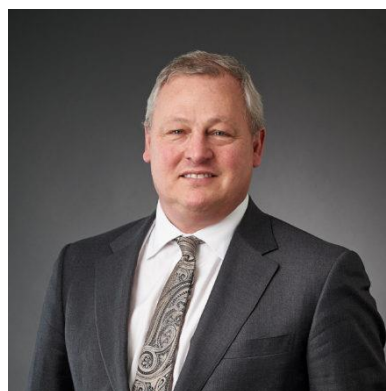
There is a lot to look forward to. **We are really excited about where we are and where we are going.** We have exciting product launches ahead, which started with the launch of the Xcelsior AV in January 2021, North America's first fully operational heavy-duty Level 4 automated bus. Soon, we will launch new electric vehicle models at New Flyer, unveil the new D45 Commuter Rapid Transit battery-electric coach at MCI, and begin production of ARBOC's Equest CHARGE shuttle bus.

We are **committed to continuing to innovate** in order to ensure better, smarter, safer, more sustainable, and more connected public transportation. Environmental and social governance continues to drive our decision making, and NFI is extremely well positioned to capitalize on both our internal initiatives, including an increase in the diversity of our team, reduction of our carbon footprint, and through the environmental and social benefits created by our products. NFI's vehicles and solutions will enable smart city development, reduce the harmful impacts of climate change, traffic congestion and noise pollution, and create economic opportunity for current and future generations.

Sincerely,




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




Paul Soubry
President & Chief Executive Officer
NFI Group Inc.



Leading the **ZE**volution.™

NFI is a leading global bus manufacturer of mass mobility solutions



NA Market Leader in Heavy-Duty Transit Buses and Infrastructure Solutions



NA Market Leader in Motor Coaches



World Leader in Double Deck Buses; UK Market Leader in Bus and Coach



NA market leader in Low-floor Cutaway and medium-duty Shuttle buses



Market leader in Bus/Coach Parts



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NFI is leading zero-emission electric mobility

20 million +

Electric service miles driven

1,371

Zero-Emission Buses (ZEBs) delivered since 2015

389

ZEBs delivered in 2020 (9% of total deliveries)

34% improvement from 2019

80+

Cities with an NFI ZEB in service or on order

632

ZEBs in backlog (5.8% of total backlog)

\$24.7 million

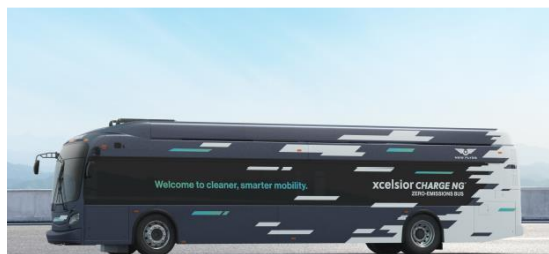
Infrastructure Solutions revenue in 2020

20% to 25%

of 2021 production is expected to be ZEBs

8,000

Annual ZEB production capacity





FY 2020 Highlights (US\$)

\$2.4 billion

Revenue

4,371

EUs delivered

3,519

EUs in New Orders

24,378

Total Bid Universe

\$233.5 million

Liquidity

\$158 million

Adjusted EBITDA

\$27.5 million

Free Cash Flow

\$18 million

NFI Forward

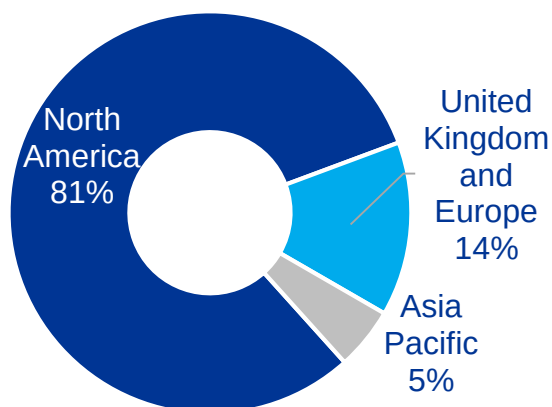
(\$0.75)

Adjusted Net Earnings per Share

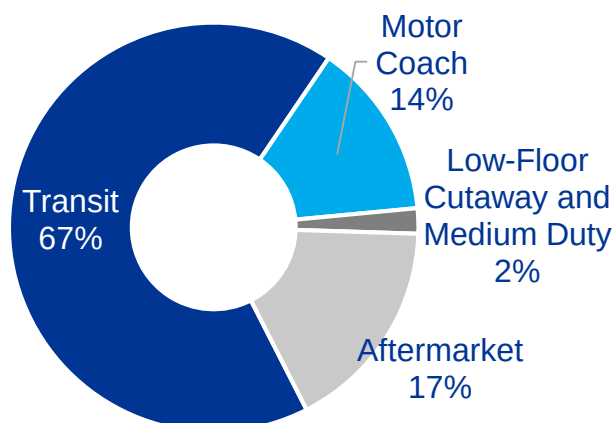
\$4.5 billion

Ending Backlog of 8,504 EUs

Revenue by Geography



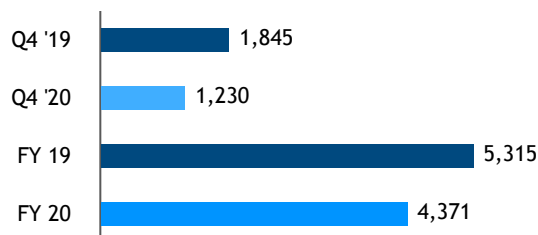
Revenue by Product



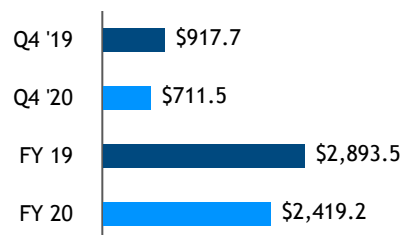


KEY PERFORMANCE INDICATORS

Deliveries (EUs)



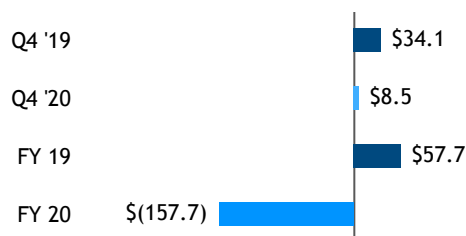
Revenue (\$ millions)



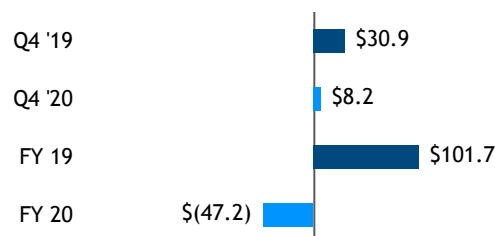
The decrease in deliveries from 2019 Q4 to 2020 Q4 was related to lower production volumes as a result of the ongoing impacts of the COVID-19 pandemic. Lower deliveries were experienced in all of NFI's product lines, with the largest decline seen in private motor coach. Fiscal 2020 new vehicle deliveries were down by 944 EUs, or 17.8%, from Fiscal 2019, with declines in heavy-duty transit and motor coach somewhat offset by increased deliveries of low-floor cutaway vehicles.

Total revenue decreased by 22.5% from 2019 Q4 to 2020 Q4 due to the decline in vehicle deliveries. Aftermarket parts sales were also lower by 11.4%, primarily due to private operators idling their fleets due to the COVID-19 pandemic. The comparative quarter decline is also partly a reflection of the record deliveries achieved in 2019 Q4. Fiscal 2020 revenues were down 16.4% from Fiscal 2019, due to the ongoing impacts of the COVID-19 pandemic, including lower vehicle deliveries and private sector aftermarket parts sales. The acquisition of ADL partially offset the COVID-19 related revenue decline in the fiscal-year comparative.

Net earnings (loss) (\$ millions)



Adjusted Net Earnings¹ (Loss) (\$ millions)



The 2020 Q4 net earnings of \$8.5 million, a decrease of \$25.6 million from 2019 Q4, was mainly driven by lower revenues mentioned above. The Company continued to lower variable overhead costs in step with lower production, but was unable to reduce fixed costs as quickly. Net earnings were impacted by \$5.4 million in exceptional costs related to COVID-19 and \$1.0 million in one-time, non-recurring restructuring charges primarily related to the NFI Forward initiative. Losses from operations were partially offset by government grants of \$11.3 million received through the Canadian Emergency Wage Subsidy ("CEWS") and the UK Job Retention ("UK Furlough") program.

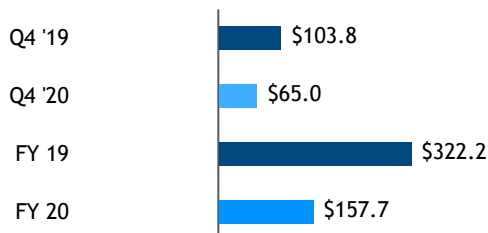
The Company reported a net loss of \$157.7 million in Fiscal 2020, driven by lower production volumes, extraordinary COVID-19 costs, and non-recurring restructuring costs associated with production reductions and the NFI Forward initiative. Fiscal 2020 results were also lower as a result of a \$50.8 million goodwill impairment charge related to MCI's private motor coach operations, incurred in 2020 Q1.

2020 Q4 Adjusted Net Earnings of \$8.2 million was primarily driven by the same factors relating to net earnings, but adjusted for several normalizing tax affected items, including \$0.7 million in one-time, non-recurring restructuring charges and \$3.7 million in other COVID-19 related costs. Fiscal 2020 Adjusted Net Loss of \$(47.2) million is normalized for tax-affected items including \$19.0

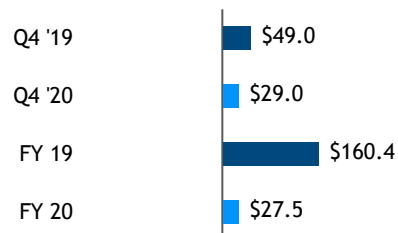


million of one-time, non-recurring restructuring charges and \$32.7 million of COVID-19 related costs, as well as the \$50.8 million goodwill impairment and \$12.2 million of mark-to-market losses on interest rate swaps.

Adjusted EBITDA¹ (\$ millions)



Free Cash Flow¹ (\$ millions)

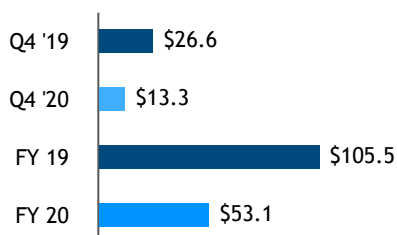


2020 Q4 Adjusted EBITDA of \$65.0 million decreased by \$38.9 million from 2019 Q4, or 37.4%, driven by the decrease in deliveries and aftermarket revenue mentioned above. In response to the decline in revenue the Company was focused on lowering both variable production costs and fixed general and administrative expenses. This included the transformational NFI Forward initiative, which is anticipated to lower both direct and fixed costs. NFI Forward achieved Adjusted EBITDA savings of \$17.0 million, and a further \$1.0 million of Free Cash Flow savings related to interest expenses and leases in Fiscal 2020.

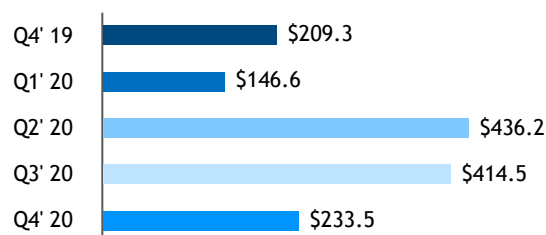
On a yearly basis, Adjusted EBITDA decreased by \$164.5 million, or 51.1%, as NFI delivered fewer vehicles in 2020 due to the impacts of the COVID-19 pandemic. In addition, the Company continued to incur fixed operating costs on a lower revenue base. These negative impacts were somewhat offset by government grants of \$53.5 million received through the CEWS and UK Furlough programs, and improvements at KMG. Despite headwinds from COVID-19 related absenteeism, KMG achieved positive Adjusted EBITDA for the second consecutive quarter, and despite the many operational challenges COVID-19 presented throughout Fiscal 2020, KMG achieved year-over-year Adjusted EBITDA improvement of \$7.3 million.

Free Cash Flow in 2020 Q4 decreased by \$20.0 million, or 40.8%, as compared to 2019 Q4, primarily due to lower Adjusted EBITDA and higher maintenance capital expenditures. On a yearly basis, Free Cash Flow decreased by 82.9%, primarily driven by the idling of production facilities in the second quarter, which resulted in second quarter Free Cash Flow losses of \$43.1 million.

Declared dividends (\$CAD millions)



Total Liquidity (\$ millions)



Effective Q1 2020, quarterly dividends were reduced 50.0% to C\$0.2125 per common share in direct response to the impact of the COVID-19 pandemic on the Company's end markets and operating business. On a yearly basis, dividends are down 49.7%. While the dividend payment was reduced, the continued payment reflects the confidence of the Board of Directors (the "Board") in the Company's business while maintaining the financial flexibility required to operate during a period of significant uncertainty.

The Company's liquidity position, which combines cash on-hand plus available capacity under credit facilities, as at December 27, 2020 was \$233.5 million, up \$24.2 million from Q4 2019. On December 23, 2020, NFI announced amendments to its credit facilities: NFI amended the Company's existing \$1.25 billion senior revolving credit facility (the "Credit Facility") and its £50 million revolving UK credit facility (the "UK Facility"), and the amended facilities provide NFI with relaxed covenants as it recovers from the impacts of the COVID-19 pandemic. Under the terms of the amended facilities, the total leverage and interest coverage ratios for 2021 and

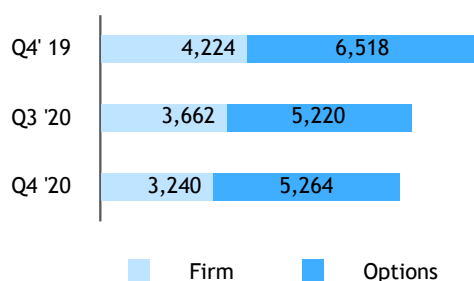


2022 have been increased to a higher level. During 2021, the Company has received a waiver of the total net leverage covenant and will instead need to comply with a total net leverage ratio that is based on a financial projection for the Company's 2021 fiscal year. In addition to amending the facilities, NFI terminated the unused \$250 million unsecured credit facility it entered into in April 2020 (the "Sidecar"), which was intended to provide additional liquidity, which the Company believes it no longer requires. Further details regarding the credit facilities and the Company's covenants can be found in the Capital Allocation section of this MD&A.

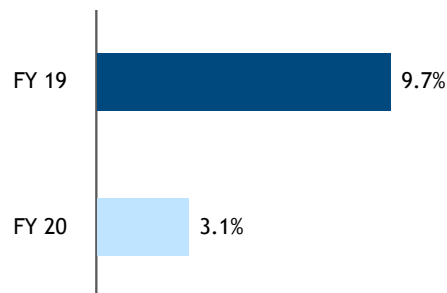
On March 1, 2021, NFI announced that it had closed a bought-deal equity offering (the "Offering") with a syndicate of underwriters (the "Underwriters") pursuant to which NFI issued 8,446,000 common shares at a price of C\$29.60 per share for gross proceeds to the Company of C\$250 million. The Company intends to use the net proceeds of the Offering to reduce the outstanding balances under its credit facilities, which is expected to strengthen NFI's balance sheet, reduce leverage and interest expense and significantly increase liquidity.

NFI believes that its existing liquidity combined with the additional financial flexibility provided from the Offering will allow it to pursue its operational and strategic goals, such as investments in NFI's zero-emission products and electric propulsion technology, investments required under the previously disclosed NFI Forward cost-reduction initiative and other potential growth opportunities, in addition to continuing to return capital to shareholders through dividends.

Backlog (EUs)



ROIC¹



At the end of 2020 Q4, the Company's total backlog (firm and options) of 8,504 EUs (valued at \$4.3 billion) has decreased compared to 8,882 EUs (valued at \$4.5 billion) at the end of 2020 Q3. The decrease was primarily driven by the Company delivering units in the backlog while new orders were lower during the period due to delays in new contract awards as a result of COVID-19 disruptions to public market customers. Backlog was also impacted by the expiry of 120 option EUs and the cancellation of 26 EUs.

FY 2020 ROIC decreased by 68.0% from 2019 Q4 LTM due to the decline in Adjusted EBITDA, driven by the impacts of COVID-19, combined with one-time non-recurring lower of cost or net realizable value adjustments in respect of the Company's pre-owned coaches, and goodwill impairment in the MCI business unit.

Footnotes

1. Non-IFRS Measure - See Appendix A



2020 Q4 HIGHLIGHTS

The fourth quarter of 2020 saw NFI continue to recover from the impacts of COVID-19 and deliver significant improvement over both the third quarter, as well as over the second quarter of idled production. While results improved in 2020 Q4, the ongoing COVID-19 pandemic continued to challenge NFI's customers and end markets. Rising COVID-19 rates in the U.S., Canada, and the UK, combined with mutations of the virus, ongoing work-from-home mandates and the dramatic decline in travel slowed the announcement of new vehicle awards, and delayed or deferred purchases, especially in private coach and UK transit markets.

As a result of the pandemic and in order to achieve the anticipated benefits from the ongoing NFI Forward initiative, the Company incurred several one-time costs that have been normalized within Adjusted EBITDA and Adjusted Net Earnings. These adjustments (tax effected) include:

- Restructuring
 - \$1.0 million in severance costs and asset impairments primarily related to the NFI Forward initiative.
- COVID-19
 - \$4.6 million in asset impairments from aftermarket parts inventory and ADL private coach.
 - \$0.8 million of COVID-19 operating costs that include, but are not limited to, the purchase of personal protective equipment, plant sanitation activities and incremental cleaning activities.

Adjusted Net Earnings are also normalized for other related items including:

- \$2.3 million mark-to-market loss on interest rate swap
- \$2.2 million unrealized foreign exchange gains
- \$1.1 million fair value adjustments to the total return swap

After adjusting for these items, Adjusted Net Earnings is \$8.2 million or \$0.13 per share.

While the pandemic continued to create challenges during the fourth quarter, it was a busy period for NFI that saw the Company experience several events and achieve significant milestones, including the following:

- In November, ADL expressed support for the UK Government's Ten Point Plan for a Green Industrial Revolution and the commitment to invest £120 million to begin the introduction of at least 4,000 more British built ZEBs. ADL is the UK's leader in ZEBs and is extremely well positioned to capitalize on the transition to zero-emission vehicles. An example of this leadership position was the ADL BYD partnership's electric vehicles completing 600,000 zero-emission service miles in December 2020.
- NFI's North-American ZEB strategy continued in earnest with awards in Nashville for vehicles and the associated charging infrastructure. The California Air Resources Board also approved MCI's zero-emission coaches to be eligible to avail of the Hybrid and Zero-Emission Truck and Bus Voucher Incentive Program.
- ADL's new market growth strategy continued with the delivery of the first Enviro500 double-deck vehicles to Berlin, Ireland and New Zealand. In Berlin, ADL expects to receive an order for an additional 198 units following completion of a testing program. In Ireland, there are another 180 EUs on order for 2021 delivery, and ADL delivered two electric vehicles to New Zealand.
- NFI's commitment to the communities in which it operates was more important than ever in 2020, and NFI and its employees were pleased to raise over C\$400,000 through its annual United Way fundraising campaign, providing support to 19 communities across North America.
- In December, MCI announced that the MCI Academy had received its fourth consecutive ASE Training Managers Council National Excellence in Training Award, the Grand Award, for its High Voltage Safety Program.
- Throughout the quarter, NFI's Clean and Protect product line helped customers provide a safer transportation experience as customers equipped their vehicles with sanitization, cleaning and air purification products.
- ARBOC's low-floor cutaway growth strategy took significant steps forward as the Company received an order for 53 low-floor Spirit of Freedom buses from British Columbia's TransLink, and Transit St. Louis added 13 new Metro Call-A-Ride vans to its fleet.
- On December 23, 2020, NFI announced amendments to its \$1.25 billion Credit Facility and its £50 million UK Facility. The amended facilities provide NFI with relaxed covenants as it recovers from the impacts of the COVID-19 pandemic. In addition to amending the facilities, NFI terminated the unused \$250 million Sidecar, which was intended to provide additional liquidity in 2020, which the Company believes it no longer needs.



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The Company continued to pay its quarterly dividend of C\$0.2125 per share (annual rate of C\$0.85 per share), resulting in a payout ratio for Fiscal 2020 of 153.0%. The Board expects to maintain dividends on a quarterly basis, although such dividends are not assured.

Leading the ZEvolution™

On January 11, 2021, NFI held its virtual Investor Day 2021, where NFI's Senior Leadership Team and Board provided detailed presentations regarding NFI's business and strategy, with a focus on NFI's vision to drive the increased adoption of ZEBs, what NFI is calling the ZEvolution™. The event also featured an informative discussion by a panel made up of mobility experts from Canada, the United States, and the United Kingdom. During the event, NFI announced its 2021 guidance, 2025 targets and longer-term financial outlook, details of which can be found in the Outlook section of this MD&A.

FINANCIAL RESULTS

Despite improvements from the third and second quarters, the COVID-19 pandemic continued to negatively impact NFI's 2020 Q4 results across all financial metrics, including the Company's deliveries, which declined by 615 EUs, or 33.3%, from 2019 Q4. Lower deliveries were experienced in all of NFI's product lines, but the most significantly impacted continued to be the private segments of MCI and ADL. Private market activity remained low as operators continued to idle their vehicles in response to government travel restrictions, social distancing and self-isolation requirements. The comparative quarter decline is also partly a reflection of the record deliveries achieved in 2019 Q4, following a significant build up of work-in-progress inventory ("WIP") in 2019 Q3. The comparative full year decline is partially offset by the acquisition of ADL.

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

Deliveries (unaudited, EUs)						
	2020 Q4	2019 Q4	% Change	2020	2019	% Change
Transit buses	913	1,347	(32.2)%	3,318	3,931	(15.6)%
Motor coaches	221	389	(43.2)%	633	1,036	(38.9)%
Medium-duty and cutaway	96	109	(11.9)%	420	348	20.7 %
New Vehicle Deliveries	1,230	1,845	(33.3)%	4,371	5,315	(17.8)%
Pre-owned coach	133	176	(24.4)%	329	469	(29.9)%

Revenue (unaudited quarterly results, audited full year results, dollars in millions)						
	2020 Q4	2019 Q4	% Change	2020	2019	% Change
Transit buses	\$ 457.6	\$ 571.1	(19.9)%	\$ 1,593.4	\$ 1,841.1	(13.5)%
Motor coaches	121.9	192.0	(36.5)%	334.4	526.5	(36.5)%
Medium-duty	8.7	18.2	(52.2)%	41.7	49.8	(16.3)%
Total new transit bus, coach and cutaway revenue	\$ 588.2	\$ 781.3	(24.7)%	\$ 1,969.5	\$ 2,417.4	(18.5)%
Pre-owned coach revenue	9.0	13.7	(34.3)%	18.4	46.0	(60.0)%
Infrastructure solutions	9.0	3.8	136.8 %	24.7	6.1	304.9 %
Fiberglass reinforced polymer components	1.6	1.8	(11.1)%	5.1	6.6	(22.7)%
Manufacturing Revenue	\$ 607.8	\$ 800.6	(24.1)%	\$ 2,017.7	\$ 2,476.1	(18.5)%
Aftermarket	103.7	117.1	(11.4)%	401.5	417.4	(3.8)%
Total Revenue	\$ 711.5	\$ 917.7	(22.5)%	\$ 2,419.2	\$ 2,893.5	(16.4)%

North America	559.7	710.6	(21.2)%	1,966.6	2,508.2	(21.6)%
United Kingdom and Europe	106.6	174.4	(38.9)%	332.5	320.1	3.9 %
Asia Pacific	44.5	32.0	39.1 %	117.7	63.7	84.8 %
Other	0.7	0.8	(12.5)%	2.4	1.4	71.4 %

Manufacturing revenue for 2020 Q4 decreased by \$192.8 million, or 24.1%, compared to 2019 Q4. The decrease is primarily driven by lower deliveries of both transit buses and motor coaches, as the Company lowered production volumes in response to public customer order deferrals and private customer order delays or cancellations, which were both attributable to the economic impacts of the COVID-19 pandemic. Pre-owned coach sales decreased due to a decline in deliveries and demand for vehicles as the majority of North American and UK private coach operators idled operations during the quarter. Due to these market conditions, the Company signed an agreement mid-quarter to sell MCI's pre-owned coach pool to a third party for total proceeds of approximately \$19.0 million. The Company recognized \$5.8 million of revenue related to the sale in 2020 Q4, and expects to recognize the remainder in the first half of 2021, depending on the timing of deliveries. Medium duty revenue was lower due to an unfavourable product mix.



Revenue from Aftermarket operations in 2020 Q4 decreased by \$13.4 million, or 11.4% compared to 2019 Q4. The decline in revenue was primarily driven by lower private sector parts volumes within both the NFI aftermarket and ADL aftermarket businesses. Offsetting some of this pressure was increased sales to public customers for Clean and Protect™ products aimed at improving vehicle safety and cleanliness.

Adjusted EBITDA ⁽¹⁾ (unaudited, dollars in millions)						
	2020 Q4	2019 Q4	% Change	2020	2019	% Change
Manufacturing	54.3	85.7	(36.6)%	102.0	256.1	(60.2)%
Aftermarket	17.1	18.4	(7.1)%	66.7	74.6	(10.6)%
Corporate	(6.4)	(0.3)	(2,033.3)%	(11.0)	(8.5)	(29.4)%
Total Adjusted EBITDA	\$65.0	\$103.8	(37.4)%	\$157.7	\$322.2	(51.1)%
Adjusted EBITDA as a percentage of revenue						
Manufacturing	9.1 %	10.7 %	(15.0)%	5.1 %	10.3 %	(50.5)%
Aftermarket	16.5 %	15.7 %	5.1 %	16.6 %	17.9 %	(7.3)%
Total	9.2 %	11.3 %	(18.6)%	6.5 %	11.1 %	(41.4)%

Net Earnings (Loss) ⁽²⁾ (unaudited quarterly results, audited full year results, dollars in millions, except per share amounts)						
	2020 Q4	2019 Q4	% Change	2020	2019	% Change
Manufacturing	11.5	31.5	(63.5)%	(117.7)	83.3	(241.3)%
Aftermarket	11.2	15.5	(27.7)%	52.1	63.6	(18.1)%
Corporate	(14.2)	(12.9)	10.1 %	(92.1)	(89.2)	3.3 %
Net earnings (Loss)	\$ 8.5	\$ 34.1	(75.1)%	\$ (157.7)	\$ 57.7	(373.3)%
Goodwill impairment	—	—	N/A	50.8	—	N/A
Extraordinary COVID-19 costs	5.4	—	N/A	47.4	—	N/A
Non-recurring restructuring costs	1.0	—	N/A	27.5	—	N/A
Adjusted Net Earnings (Loss)⁽¹⁾	8.2	30.9	(73.5)%	(47.2)	101.7	(146.4)%
Net earnings (Loss) Per Share	0.14	0.55	(74.5)%	(2.52)	0.93	(371.0)%
Adjusted Earnings (Loss) Per Share⁽¹⁾	\$ 0.13	\$ 0.49	(73.5)%	\$ (0.75)	\$ 1.65	(145.5)%

⁽¹⁾ Non-IFRS Measure - See Appendix A for details.

⁽²⁾ Comparative segment allocations have been restated to conform with current period presentation.

2020 Q4 Manufacturing Adjusted EBITDA decreased by \$31.4 million, or 36.6%. The Company continued to lower variable overhead in step with production but was unable to reduce fixed costs as quickly, resulting in lower Adjusted EBITDA. The Company has initiated the NFI Forward initiative to reduce direct and general and administrative fixed costs. In 2020, NFI has achieved cost savings of \$16.6 million in the Manufacturing Segment. The Q4 decrease in Adjusted EBITDA was partially offset by \$11.3 million in government grants and improvements at the Company's parts fabrication facility ("KMG"). Despite challenges from COVID-19 related absenteeism, KMG achieved positive Adjusted EBITDA for the second consecutive quarter, and despite the many operational challenges COVID-19 presented throughout Fiscal 2020, KMG achieved year-over-year Adjusted EBITDA improvement of \$7.3 million. Manufacturing 2020 Q4 net earnings decreased by \$20.0 million, or 63.5%, due to the items that impacted Adjusted EBITDA, combined with \$3.5 million in extraordinary costs related to COVID-19. The previously described extraordinary COVID-19 costs included a \$2.7 million impairment charge on ADL's motor coach inventory. Net earnings were also impacted by one-time, non-recurring restructuring charges of \$1.0 million. Restructuring charges are associated with production reductions and the NFI Forward initiative.



2020 Q4 Aftermarket Adjusted EBITDA decreased by \$1.3 million, or 7.1%. The impact of lower revenue was offset by cost savings from headcount reductions, a favourable product mix, and NFI Forward savings of \$0.4 million. 2020 Q4 net earnings decreased by \$4.3 million, or 27.7%. The decrease was driven by the same factors that impacted Adjusted EBITDA, combined with a COVID-19 related inventory impairment charge of \$1.9 million.

Corporate Adjusted EBITDA decreased by \$6.1 million, primarily as a result of realized foreign exchange. Corporate expenses included in the calculation of net earnings decreased by \$1.3 million, or 10.1%, primarily due to higher interest costs, partially offset by unrealized foreign exchange gains on non-current monetary items.

Free Cash Flow⁽¹⁾ (unaudited, dollars in millions, except per share amounts)							
	2020 Q4	2019 Q4	% Change	2020	2019	% Change	
Free Cash Flow	\$ 29.0	\$ 49.0	(40.8)%	\$ 27.5	\$ 160.4	(82.9)%	
Free Cash Flow (CAD dollars)	39.6	64.1	(38.2)%	34.7	211.4	(83.6)%	
Declared Dividends (CAD dollars)	13.3	26.6	(50.0)%	53.1	105.5	(49.7)%	
Free Cash Flow per Share (CAD dollars)	\$ 0.63	\$ 1.03	(38.8)%	\$ 0.56	\$ 3.42	(83.6)%	
Dividends per Share (CAD dollars)	\$ 0.21	\$ 0.43	(51.2)%	\$ 0.85	\$ 1.71	(50.3)%	
Payout Ratio (Declared Dividends divided by Free Cash Flow)	33.6 %	41.5 %	(19.0)%	153.0 %	49.9 %	206.6 %	

⁽¹⁾Non-IFRS Measure - See Appendix A for details.

Free Cash Flow in 2020 Q4 decreased by \$20.0 million, or 40.8%, compared to 2019 Q4, primarily due to lower Adjusted EBITDA, higher maintenance capital expenditures, and higher lease obligation payments. The Company increased maintenance capital expenditures in the fourth quarter, after limiting expenditures in the second and third quarters to preserve cash during the idling of production facilities. Lease obligation payments were higher because the Company made payments, related to previous quarters, that had been deferred to preserve cash during the idling of production facilities. The decrease in fourth quarter Free Cash Flow was partially offset by lower income taxes.

Fiscal 2020 Free Cash Flow was particularly challenged by the idling of nearly all production facilities in the second quarter, which resulted in second quarter Free Cash Flow losses of \$43.1 million. Losses in the second quarter were the primary driver of the Company's Fiscal 2020 payout ratio of 153.0% percent. In response to these challenges, the Company reduced quarterly dividends 50% to C\$0.2125 per common share, effective Q1 2020.



OUTLOOK

Management anticipates that NFI's end markets will continue to be impacted by COVID-19 in 2021; however, the Company expects improvement in its financial results as markets recover and the NFI Forward initiative continues to deliver improvements to operating metrics. Market recovery will be dependent upon several factors, including government recovery and green fleet investments, COVID-19 case rates, vaccine distribution, the length of the pandemic, mutations of the virus, travel restrictions, and economic reopening activity. These factors will differ by product and geography. The Company's vehicle product lines (New Flyer, ARBOC, MCI public motor coach, and ADL) are primarily used for public transit, which remains a critical method of transportation for millions of users in the Company's markets and is an economic enabler in cities. Within the North American heavy-duty transit and public coach businesses, near- and longer-term demand is expected to return, although the duration of the recovery from COVID-19 may affect vehicle awards and delivery timing. Management's recovery expectations are supported by continued support for transit operations by all levels of government and the Company's North American bid universe, which includes 4,032 EUs in active procurements. Management also believes recent advancements in COVID-19 vaccines and the commencement of vaccine rollouts are positive signs for continued market recovery.

NFI is Leading the ZEvolution™

At its January 2021 Investor Day, NFI unveiled its vision to drive the increased adoption of ZEBs, what the Company is calling the ZEvolution™. NFI envisions a consistent adoption of zero-emission vehicles over the next 10 to 15 years as operators in North America, the UK, Europe and Asia Pacific markets transition their fleets to electric vehicles. NFI has been building electric vehicles since 1969 and offers the broadest offering of ZEBs, including battery-electric buses and coaches, hydrogen fuel-cell buses and electric trolleys.

NFI is the leader in North America and the UK for ZEBs and is expected to be a significant beneficiary from the increased acceleration to ZEBs. Currently, ZEBs make up 7.4% of NFI's backlog (up from 3.6% at the end of 2019 Q4), and make up 30% of the Company's total North American bid universe.

A critical component of NFI's strategy is to provide complete mobility solutions, including vehicles, infrastructure installation, telematics, and aftermarket support. NFI has the largest vehicle production capacity in North America and the UK, and can manufacture ZEBs at all of its vehicle facilities. NFI has electric vehicles in service with 15 of the top 25 transit agencies in North America, and the Company's battery-electric and fuel-cell electric vehicles have completed over 4.5 million miles of zero-emission service in North America, and more than 16.0 million zero-emission miles in the UK. The Company has also installed infrastructure with numerous agencies, which saw the Company grow its Infrastructure Solutions™ revenue by more than 300% year-over-year, from 2019 to 2020. The Company has delivered more ZEBs than any competitor in the UK, and is also now selling its innovative battery-electric coach in the US and Canada, with the first public order for 25 coaches to be delivered in 2021. ARBOC's zero-emission battery electric bus, the Equess CHARGE™, will begin production in the second half of 2021, following completion of Altoona testing. Management anticipates that based on the Company's leadership position, product offering, experience and customer relationships it is well positioned to capitalize on the long-term transition to ZEBs in both core and new markets.

Government Support for Recovery and Zero-Emission Transition

During the global pandemic, government support for transit operations has remained strong, recognizing the critical role transit plays in re-mobilizing cities and supporting economic recovery. In addition to billions of dollars in COVID-19 operations relief funds, governments have also committed billions for long-term fleet investments and the transition to zero-emission, battery-electric vehicles.

In the United States, the Fixing America's Surface Transportation Act ("FAST Act"), which is the primary federal funding mechanism, was extended for one year. The FAST Act extension includes funds to maintain the Highway Trust Fund's solvency at current funding levels, which equates to \$12.3 billion for transit programs through fiscal year 2021, with dedicated funding of \$1.2 billion for bus appropriations in 2021. The proposed successor to the FAST Act is the \$494 billion Investing in a New Vision for the Environment and Surface Transportation in America Act ("INVEST in America Act") drafted early in 2020. This new draft Act includes \$105 billion for transit capital purchases, including a five-time increase in funding for zero-emission buses from the previous FAST Act.

In October 2020, the Canadian federal government announced \$1.5 billion in financing through the Canada Infrastructure Bank to support the adoption of ZEBs and charging infrastructure; the financing is expected to be delivered over a 24- to 36-month period. The Canadian government followed this with a landmark announcement in February 2021 that will see \$14.9 billion invested in Canadian public transit. The program includes \$5.9 billion in dedicated project funds starting in 2021, and ongoing permanent funding of \$3 billion per year beginning in 2026-2027.

The UK, despite numerous headwinds faced in 2020, saw an increase in government support and more subsidies available to bus operators than ever before. The government's new Ten Point Plan for a Green Industrial Revolution, announced November 18, 2020, is a follow-up to the UK government's original plan to invest £5 billion for buses, cycling and walking, and continued to highlight the government's commitment to introduce 4,000 more British-built zero-emission buses into service.

In Asia Pacific markets, the New Zealand government provided an election pledge that only zero-emission buses will be purchased by 2025, and that they will target decarbonizing their entire public transit fleet by 2035. ADL's partnership with BYD has a solid position in the New Zealand market and management expects it will be a beneficiary of this transition. The Hong Kong government continues to advance trials and applications for electric commercial vehicles which may provide opportunities for ADL given its strong relationships with the largest commercial operators in the market.

Looking forward, management is encouraged by the desire of President Biden to rebuild a cleaner and more resilient economy through investments in zero-emission and low-carbon public transportation. A campaign priority of the new Biden administration is to "provide every American city with 100,000 or more residents with high-quality zero-emission public transportation options through flexible federal investments," and Prime Minister Trudeau's plan has an aggressive target of 5,000 zero-emission buses and coaches by 2025.

As the market leader in North American transit and coach operations and the UK's leading provider of zero-emission buses through the ADL BYD partnership, management believes NFI is extremely well positioned for both the near- and long-term based on the multi-year commitments being made by governments in all of the Company's core markets. Management anticipates significant opportunities for NFI to grow top-line revenue from increased market demand for its products with strong underlying financial support from government bodies.

Financial Guidance

As management anticipates market recovery, geographic expansion, increased sales of ZEBs, and continued realization of savings from the NFI Forward Initiative, in January 2021 it provided Adjusted EBITDA guidance for Fiscal 2021 with a range of \$220 million to \$240 million. This range could represent growth in Adjusted EBITDA of over 50% on a year-over-year basis when compared to Fiscal 2020. Management and the Board remain confident in the following guidance:

2021 Financial Guidance	
Revenue	\$2.8 billion to \$2.9 billion
ZEB (electric) as a percentage of manufacturing sales	20% to 25%
Adjusted EBITDA ¹	\$220 million to \$240 million
Cash Capital Expenditures - including NFI Forward	\$50 million
Adjusted Effective Tax Rate ("ETR")	~31%
Seasonality	Decline in Q1; year-over-year growth in Revenue and Adjusted EBITDA in Q2, Q3 and Q4

The above table outlines guidance ranges for selected Fiscal 2021 consolidated financial metrics. These ranges take into consideration management's current outlook combined with Fiscal 2020 results and are based on the assumptions set out below. The purpose of the financial guidance is to assist investors, shareholders, and others in understanding certain financial metrics relating to expected Fiscal 2021 financial results for evaluating the performance of NFI's business. The information may not be appropriate for other purposes. Information about guidance, including the various assumptions underlying it, is forward-looking and should be read in conjunction with the section "Forward-Looking Statements" in Appendix A and the related disclosure and information about various economic competitive and regulatory assumptions, factors, and risks that may cause actual future financial and operating results to differ from management's current expectations.

The guidance provided above is driven by numerous expectations and assumptions including, but not limited to, the following:

- **Revenue:** Growth is expected to be driven by the Company's solid backlog, strong government financial support, new order growth from the anticipated recovery within North American public transit markets and the United Kingdom transit market, combined with an expected increase in sales activity in Asia Pacific and European markets. In addition, management believes there is potential for improvement in private coach aftermarket parts sales.
- **ZEB sales:** Growth in ZEB sales is based on the Company's backlog and expected new orders from increased market demand for zero-emission vehicles.



- **Adjusted EBITDA:** Adjusted EBITDA growth is based on expected revenue growth, anticipated margins from vehicles in the Company's current backlog and anticipated new orders, expected increases in the sales of ZEBs and cost reductions from the NFI Forward initiative. NFI expects to realize approximately \$30 million of savings from NFI Forward in 2021, and to reach cumulative savings of approximately \$47 million at the end of 2021, starting from the inception of the program in the third quarter of 2020. The lower end of the Adjusted EBITDA range is based on scenarios where production is negatively impacted by slower market recovery, limited ongoing impacts of COVID-19 and delays in achieving cost reductions from the NFI Forward initiative.
- **Cash Capital Expenditures:** Fiscal 2021 cash capital expenditures are expected to be allocated between maintenance and NFI Forward projects, based on approximately a seventy/thirty percent split.
- **Adjusted ETR:** The Adjusted Effective Tax Rate is based on current tax rates in the jurisdictions in which NFI operates, anticipated financial results, the Company's corporate structure and the assumption that there will not be significant changes in applicable tax rates in 2021.
- **COVID-19:** Management has assumed that the impact of COVID-19 on the Company's business in 2021 will be significantly lower than in 2020, including no significant idling of any of the Company's facilities, increased buying activity from customers and limited supply disruptions. The overall impact of COVID-19 is expected to reduce steadily through the end of 2021.

Management cautions readers that the consolidated NFI Group's annual results have an element of seasonality due to the nature of each unique market segment and the varied annual production and vacation schedule of each production facility. With the addition of ADL, this has become even more pronounced with the third and fourth quarters now being periods with higher delivery volumes. Management anticipates that on a year-over-year basis the first quarter of 2021 results will be lower than the same period in 2020, while the other three quarters of the year should see improvement from 2020 results. Management also advises readers that NFI's first quarter, second and third quarters are 13-week periods, while the fourth quarter is a 14-week period for a 53-week fiscal year.

Strengthening the Balance Sheet

Proceeds of C\$250 million received from the Company's Offering are being utilized to reduce the outstanding balance under NFI's revolving senior credit facility. This is expected to strengthen NFI's balance sheet, reduce leverage and interest expense, and significantly increase liquidity. NFI believes that this will provide the Company with additional financial flexibility to attract new investors and to pursue its operational and strategic objectives, which include investments in NFI's zero-emission products and electric propulsion technology, investments required under the previously disclosed NFI Forward cost-reduction initiative and investigating other potential growth opportunities, in addition to continuing to return capital to shareholders through dividends.

NFI Forward Update

On July 27, 2020, NFI responded to the impacts of COVID-19 by launching its transformative cost reduction initiative, NFI Forward, to significantly reduce manufacturing overhead and selling, general and administration ("SG&A") from 2019 levels. NFI Forward initiatives are on track to meet management's previously announced expectations.

Management continues to expect that the aggregate programs of NFI Forward will drive approximately \$67.0 million in annual Adjusted EBITDA savings, plus an additional \$10.0 million in annualized Free Cash Flow generation, driven by interest savings and lower lease payments. NFI Forward is expected to deliver an 8% to 10% reduction in both manufacturing overhead and SG&A expenses, based on 2019 production rates, with investments of approximately \$15 million to \$20 million required to deliver these savings. In 2020, the NFI Forward initiative has achieved approximately \$17.0 million in Adjusted EBITDA savings, and a further \$1.0 million in Free Cash Flow savings. These savings appear in NFI's gross margins and Adjusted EBITDA, as a reduction to direct material costs, manufacturing overhead, and SG&A.

In addition to the focus on cost savings and additional Free Cash Flow generation, management is also prioritizing working capital improvements through the NFI Forward initiative and other strategic projects aimed at improving supplier payment terms, accounts payable turns and inventory turnover, with specific focus on private vehicle inventory.

SELECTED QUARTERLY AND ANNUAL FINANCIAL AND OPERATING INFORMATION

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

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

Fiscal Period	Quarter	Revenue	Earnings (loss) from operations	Net earnings (loss)	Adjusted EBITDA ⁽¹⁾	Earnings (loss) per Share
2020						
	Q4	\$ 711,523	\$ 32,531	\$ 8,465	\$ 64,956	\$ 0.14
	Q3	663,934	(16,453)	(24,912)	60,885	(0.40)
	Q2	333,334	(72,001)	(74,050)	(24,229)	(1.18)
	Q1	710,384	(25,406)	(67,239)	56,071	(1.08)
	Total	\$ 2,419,175	\$ (81,329)	\$ (157,736)	\$ 157,683	\$ (2.52)
2019						
	Q4	\$ 917,741	\$ 69,958	\$ 34,127	\$ 103,875	\$ 0.55
	Q3	725,347	25,200	(1,085)	76,868	(0.02)
	Q2	683,353	37,000	8,507	81,122	0.14
	Q1	566,995	40,906	16,149	60,302	0.26
	Total	\$ 2,893,436	\$ 173,064	\$ 57,698	\$ 322,167	\$ 0.93
2018						
	Q4	\$ 662,020	\$ 60,570	\$ 42,815	\$ 79,868	\$ 0.69
	Q3	605,342	53,469	37,031	70,245	0.59
	Q2	673,025	72,063	49,740	91,400	0.81
	Q1	578,634	51,753	30,356	73,841	0.48
	Total	\$ 2,519,021	\$ 237,855	\$ 159,942	\$ 315,354	\$ 2.56

COMPARISON OF FOURTH QUARTER 2020 RESULTS

(U.S. dollars in thousands)

	2020 Q4	2019 Q4	Fiscal 2020	Fiscal 2019
Statement of Earnings Data				
Revenue				
North America	\$ 483,011	\$ 617,553	\$ 1,651,144	\$ 2,142,895
United Kingdom and Europe	88,900	154,820	268,916	277,669
Asia Pacific	35,930	28,202	97,669	55,456
Other	—	—	—	—
Manufacturing operations	607,841	800,575	2,017,729	2,476,020
North America	76,704	93,053	315,415	365,304
United Kingdom and Europe	17,696	19,549	63,596	42,447
Asia Pacific	8,625	3,775	20,075	8,247
Other	657	789	2,360	1,418
Aftermarket operations	103,682	117,166	401,446	417,416
Total revenue	\$ 711,523	\$ 917,741	\$ 2,419,175	\$ 2,893,436
Earnings (loss) from operations	\$ 32,531	\$ 69,958	\$ (81,329)	\$ 173,064
Earnings (loss) before interest and income taxes	\$ 36,023	\$ 71,546	\$ (72,223)	\$ 173,050
Net earnings (loss)	\$ 8,465	\$ 34,127	\$ (157,736)	\$ 57,698
Adjusted EBITDA ⁽¹⁾	\$ 64,956	\$ 103,875	\$ 157,683	\$ 322,167
Capital expenditures	\$ 9,686	\$ 7,618	\$ 27,016	\$ 41,757

⁽¹⁾Non-IFRS Measure - See Appendix A for details.

RECONCILIATION OF NET EARNINGS (LOSS) TO ADJUSTED EBITDA

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

(U.S. dollars in thousands)

	2020 Q4	2019 Q4	Fiscal 2020	Fiscal 2019
Net earnings (loss)	\$ 8,465	\$ 34,127	\$ (157,736)	\$ 57,698
Addback ⁽¹⁾				
Income taxes	12,987	26,118	1,644	41,997
Interest expense	14,571	11,301	83,869	73,355
Amortization	26,126	31,134	110,784	104,570
Loss (gain) on disposition of property, plant and equipment	(257)	52	(56)	(46)
Fair value adjustment for total return swap ⁽¹¹⁾	(1,584)	273	118	949
Unrealized foreign exchange loss (gain) on non-current monetary items and forward foreign exchange contracts	(3,237)	(1,640)	(9,050)	60
Costs (recoveries) associated with assessing strategic and corporate initiatives ⁽⁸⁾	165	(616)	1,396	13,069
Past service costs ⁽¹³⁾ and other pension costs (recovery)	7	70	(408)	(1,601)
Non-recurring costs (recoveries) relating to business acquisition	—	364	—	365
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue ⁽¹⁰⁾	—	2,156	—	31,004
Proportion of the total return swap realized ⁽¹²⁾	641	(203)	(525)	(626)
Equity settled stock-based compensation	608	437	1,770	1,566
Recovery on currency transactions ⁽¹⁴⁾	—	—	—	(4,287)
Prior year sales tax provision ⁽¹⁵⁾	37	300	184	4,094
Extraordinary COVID-19 costs ⁽¹⁶⁾	5,413	—	47,362	—
Impairment loss on goodwill ⁽¹⁷⁾	—	—	50,790	—
Non-recurring restructuring costs ⁽⁹⁾	1,014	—	27,541	—
Adjusted EBITDA ⁽¹⁾	\$ 64,956	\$ 103,875	\$ 157,683	\$ 322,167
Adjusted EBITDA is comprised of:				
Manufacturing	\$ 54,263	\$ 85,715	\$ 101,964	\$ 256,097
Aftermarket	\$ 17,103	\$ 18,413	\$ 66,748	\$ 74,572
Corporate	\$ (6,410)	\$ (254)	\$ (11,029)	\$ (8,502)

(Footnotes on page 26 and 27)

SUMMARY OF FREE CASH FLOW

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

The Company generates its Free Cash Flow from operations and management expects this will continue to be the case for the foreseeable future. Net cash flows generated from operating activities are significantly impacted by changes in non-cash working capital. The Company uses its credit facilities to finance working capital and therefore has excluded the impact of working capital in calculating Free Cash Flow.

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

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

	2020 Q4	2019 Q4	Fiscal 2020	Fiscal 2019
Net cash generated by operating activities	\$ 88,105	\$ 163,761	\$ 66,061	\$ 98,608
Changes in non-cash working capital items ⁽⁴⁾	(50,191)	(85,382)	(68,762)	91,324
Interest paid ⁽⁴⁾	15,913	15,447	63,307	47,676
Interest expense ⁽⁴⁾	(15,231)	(15,631)	(61,835)	(50,546)
Income taxes paid ⁽⁴⁾	4,124	7,228	26,693	40,167
Current income tax expense ⁽⁴⁾	(5,733)	(30,842)	(26,580)	(61,339)
Principal portion of finance lease payments	(7,829)	(1,400)	(18,887)	(12,456)
Cash capital expenditures	(9,447)	(6,968)	(25,703)	(37,575)
Proceeds from disposition of property, plant and equipment	2,259	—	2,765	174
Costs (recovery) associated with assessing strategic and corporate initiatives ⁽⁸⁾	165	(616)	1,396	13,069
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue ⁽¹⁰⁾	—	2,156	—	31,004
Defined benefit funding ⁽⁵⁾	1,118	1,969	5,507	8,140
Defined benefit expense ⁽⁵⁾	(756)	(1,322)	(5,307)	(5,849)
Past service costs ⁽¹³⁾ and other pension costs (recovery)	7	70	(408)	(1,601)
Proportion of the total return swap ⁽¹²⁾	641	(203)	(525)	(626)
Recovery on currency transactions ⁽¹⁴⁾	—	—	—	(4,287)
Prior year sales tax provision ⁽¹⁵⁾	37	300	185	4,094
Non-recurring restructuring costs ⁽⁹⁾	446	364	22,216	364
Extraordinary COVID-19 costs ⁽¹⁶⁾	5,413	—	\$ 47,362	—
Foreign exchange gain (loss) on cash held in foreign currency ⁽⁶⁾	(28)	102	(11)	83
Free Cash Flow ⁽²⁾	\$ 29,013	\$ 49,033	\$ 27,474	\$ 160,424
U.S. exchange rate ⁽³⁾	1.2869	1.3076	1.2645	1.3180
Free Cash Flow (C\$) ⁽²⁾	39,561	64,116	34,741	211,439
Free Cash Flow per Share (C\$) ⁽⁷⁾	0.6327	1.0269	0.5558	3.4200
Declared dividends on Shares (C\$)	13,287	26,561	53,140	105,462
Declared dividends per Share (C\$) ⁽⁷⁾	\$ 0.2125	\$ 0.4253	\$ 0.8500	\$ 1.7062

- (1) Adjusted EBITDA is not a recognized earnings measure and does not have standardized meaning prescribed by IFRS. Therefore, Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See "Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Net Earnings per Share" in Appendix A. Management believes that Adjusted EBITDA is a useful supplemental measure in evaluating performance of the Company.
- (2) Free Cash Flow is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. Therefore, Free Cash Flow may not be comparable to similar measures presented by other issuers. See Appendix A for "Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Earnings per Share".
- (3) U.S. exchange rate (C\$ per US\$) is the weighted average exchange rate applicable to dividends declared for the period.
- (4) Changes in non-cash working capital are excluded from the calculation of Free Cash Flow as these temporary fluctuations are managed through the credit facilities which are 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.

- (5) 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.
- (6) 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.
- (7) 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 2020 Q4 was 62,524,842 and 62,434,520 for 2019 Q4. The weighted average number of Shares outstanding for Fiscal 2020 and Fiscal 2019 are 62,510,544 and 61,809,479, 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.
- (8) Normalized to exclude non-recurring expenses and recoveries related to the costs of assessing strategic and corporate initiatives.
- (9) Normalized to exclude non-recurring restructuring costs. Free Cash Flow reconciling item is net of right-of-use asset and property, plant and equipment impairments. Fourth quarter costs relate to production reductions and the NFI Forward initiative and include severance costs of \$0.4 million (Fiscal 2020 - \$19.8 million) and right-of-use asset impairments of \$0.6 million (Fiscal 2020 - \$3.6 million). Fiscal 2020 costs also include severance expense of \$19.8 million, right-of-use asset impairments of \$3.6 million, inventory impairments of \$1.8 million, property, plant and equipment impairments of \$1.7 million and other miscellaneous costs of \$0.6 million.
- (10) The revaluation of ADL's inventory included an adjustment of \$31.0 million in Fiscal 2019. These revaluation adjustments relate to purchase accounting as a result of the related acquisition.
- (11) The fair value adjustment of the total return swap is a non-cash (gain) loss that is deducted from the definition of Adjusted EBITDA.
- (12) A portion of the fair value adjustment of the total return swap is added to Adjusted EBITDA and Free Cash Flow to match the equivalent portion of the related deferred compensation expense recognized.
- (13) In 2019 Q3, the Company received \$1.6 million recovery related to the closing of one of its pension plans. An additional amount of \$0.4 million was received in 2020 Q1.
- (14) Recovery of prior period banking fees related to foreign exchange transactions.
- (15) Provision for sales taxes as a result of an ongoing state sales tax review.
- (16) Normalized to exclude non-recurring COVID-19 related costs. COVID-19 costs include asset impairments of \$4.6 million in 2020 Q4 (Fiscal 2020 - \$43.6 million). Fourth quarter asset impairments included a parts inventory impairment of \$1.9 million, an ADL private coach impairment of \$1.7 million and an ADL pre-owned coach impairment of \$1.0 million. Fiscal 2020 asset impairments include pre-owned coach write-downs of \$36.6 million. Also included in COVID-19 costs are other operating costs of \$0.8 million in 2020 Q4 and \$3.8 million in Fiscal 2020 that include but are not limited to the purchase of personal protective equipment and plant sanitation activities. Management will continue to assess the costs for COVID-19 and will make an assessment of whether they are deemed in fact to be one time and non-recurring. As more information becomes available, management may change its assessment.
- (17) Impairment charge with respect to MCI's goodwill.

RECONCILIATION OF NET EARNINGS (LOSS) TO ADJUSTED NET EARNINGS (LOSS)

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

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

	2020 Q4	2019 Q4	Fiscal 2020	Fiscal 2019
Net earnings (loss)	8,465	34,127	(157,736)	57,698
Adjustments, net of tax ^{(1) (8)}				
Fair value adjustments of total return swap ⁽⁵⁾	(1,093)	145	81	549
Unrealized foreign exchange (gain) loss	(2,233)	(981)	(6,245)	35
Unrealized loss (gain) on interest rate swap	(2,277)	(3,115)	12,199	12,721
Impairment loss on goodwill ⁽¹¹⁾	—	—	50,790	—
Portion of the total return swap realized ⁽⁶⁾	443	(109)	(362)	(362)
Costs (recovery) associated with assessing strategic and corporate initiatives ⁽²⁾	165	(616)	1,396	13,069
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue ⁽⁴⁾	—	707	—	17,943
Equity settled stock-based compensation	419	231	1,221	906
Gain (loss) on disposition of property, plant and equipment	(178)	32	(39)	(27)
Past service costs ⁽⁷⁾ and other pension costs (recovery)	4	71	(282)	(927)
Recovery on currency transactions ⁽⁹⁾	—	80	—	(2,481)
Prior year sales tax provision ⁽¹⁰⁾	26	102	127	2,369
Extraordinary COVID-19 costs ⁽¹²⁾	3,735	—	32,680	—
Non-recurring restructuring costs ⁽³⁾	700	211	19,003	211
Adjusted Net Earnings (Loss)	\$ 8,176	30,885	\$ (47,167)	101,704
Earnings (Loss) per Share (basic)	\$ 0.14	\$ 0.55	\$ (2.52)	\$ 0.93
Earnings (Loss) per Share (fully diluted)	\$ 0.14	\$ 0.55	\$ (2.52)	\$ 0.93
Adjusted Earnings (Loss) per Share (basic)	\$ 0.13	\$ 0.49	\$ (0.75)	\$ 1.65
Adjusted Earnings (Loss) per Share (fully diluted)	\$ 0.13	\$ 0.49	\$ (0.75)	\$ 1.64

1. Addback items are derived from the historical Financial Statements of the Company.
2. Normalized to exclude non-recurring expenses related to the costs of assessing strategic and corporate initiatives.
3. Normalized to exclude non-recurring restructuring costs. Fourth quarter costs relate to production reductions and the NFI Forward initiative and include severance costs of \$0.3 million and right-of-use asset impairments of \$0.4 million.
4. The revaluation of ADL's inventory included an adjustment of \$31.0 million in Fiscal 2019. The after-tax value of the adjustment was \$17.9 million. These revaluation adjustments relate to purchase accounting as a result of the related acquisition.
5. The fair value adjustment of the total return swap is a non-cash (gain) loss that is excluded from the definition of Adjusted Net Earnings (Loss).
6. A portion of the fair value adjustment of the total return swap is excluded from Adjusted Net Earnings (Loss) to match the equivalent portion of the related deferred compensation expense recognized.

7. In 2019 Q3, the Company received \$1.0 million recovery related to the closing of one of its pension plans. An additional amount of \$0.3 million was received in 2020 Q1.
8. For 2020 Q4 and Fiscal 2020, the Company has utilized a rate of 31% to tax effect the adjustments.
9. Recovery of prior period banking fees related to foreign exchange transactions.
10. Provision for sales taxes as a result of an ongoing state tax review.
11. Impairment charge with respect to MCI's goodwill.
12. Normalized to exclude non-recurring COVID-19 related costs. COVID-19 costs include asset impairments of \$3.2 million in 2020 Q4 (Fiscal 2020 - \$30.1 million). Fourth quarter asset impairments included a parts inventory impairment of \$1.3 million, an ADL private coach impairment of \$1.2 million and an ADL pre-owned coach impairment of \$0.7 million. Fiscal 2020 asset impairments include pre-owned coach write-downs of \$25.1 million. Also included in COVID-19 costs are other operating costs of \$0.6 million in 2020 Q4 and \$2.6 million in Fiscal 2020 that include but are not limited to the purchase of personal protective equipment and plant sanitation activities. Management will continue to assess the costs for COVID-19 and will make an assessment of whether they are deemed in fact to be one time and non-recurring. As more information becomes available, management may change its assessment.

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.

Revenue

(U.S. dollars in thousands)

	2020 Q4	2019 Q4	Fiscal 2020	Fiscal 2019
Manufacturing Revenue	607,841	800,575	2,017,729	2,476,020
Aftermarket Revenue	103,682	117,166	401,446	417,416
Total Revenue	\$ 711,523	\$ 917,741	\$ 2,419,175	\$ 2,893,436
Earnings (loss) from Operations	\$ 32,531	\$ 69,958	\$ (81,329)	\$ 173,064
Earnings (loss) before interest and income taxes	36,023	71,546	(72,223)	173,050
Earnings (loss) before income tax expense	21,453	60,245	(156,092)	99,695
Net earnings (loss)	8,465	34,127	(157,736)	57,698

Manufacturing revenue for 2020 Q4 decreased by \$192.8 million, or 24.1%, compared to 2019 Q4. Manufacturing revenue for Fiscal 2020 decreased by \$458.3 million, or 18.5%, compared to Fiscal 2019. Fourth quarter figures were lower in 2020 primarily as a result of the Company reducing production volumes in response to public customer order delays and private customer order deferrals, which were both attributable to the COVID-19 pandemic. Fiscal 2020 figures were significantly impacted by the idling of production facilities in the second quarter of 2020. The comparative year decrease was partially offset by the May 2019 acquisition of ADL and higher Infrastructure Solutions revenue.

Revenue from aftermarket operations in 2020 Q4 decreased by \$13.5 million, or 11.5%, compared to 2019 Q4. Revenue from aftermarket operations for Fiscal 2020 decreased by \$16.0 million, or 3.8%, compared to Fiscal 2019. The decline in both periods were driven by lower private sector parts volumes within both the NFI parts and ADL parts businesses, partially offset by \$1.1 million of Clean and Protect product line sales. The acquisition of ADL partially offset the COVID-19 related revenue decline in the fiscal-year comparative.

Cost of sales

(U.S. dollars in thousands)

	2020 Q4	2019 Q4	Fiscal 2020	Fiscal 2019
Manufacturing				
Direct cost of sales	\$ 478,509	\$ 602,508	\$ 1,620,299	\$ 1,868,917
Depreciation and amortization	23,437	28,531	100,269	94,246
Other overhead	46,952	67,157	208,100	221,317
Manufacturing cost of sales	\$ 548,898	\$ 698,196	\$ 1,928,668	\$ 2,184,480
As percent of Manufacturing Sales	90.3 %	87.2 %	95.6 %	88.2 %
Aftermarket				
Direct cost of sales	\$ 73,771	\$ 78,965	\$ 280,737	\$ 285,151
Depreciation and amortization	2,688	2,603	10,515	10,323
Aftermarket cost of sales	\$ 76,459	\$ 81,568	\$ 291,252	\$ 295,474
As percent of Aftermarket Sales	73.7 %	69.6 %	72.6 %	70.8 %
Total Cost of Sales	\$ 625,357	\$ 779,764	\$ 2,219,920	\$ 2,479,954
As percent of Sales	87.9 %	85.0 %	91.8 %	85.7 %

The consolidated cost of sales for 2020 Q4 decreased by \$154.4 million, or 19.8%, compared to 2019 Q4. The consolidated cost of sales for Fiscal 2020 decreased by \$260.0 million, or 10.5%, compared to Fiscal 2019.

Cost of sales from Manufacturing operations in 2020 Q4 was \$548.9 (90.3% of Manufacturing operations revenue) compared to \$698.2 million (87.2% of Manufacturing operations revenue) in 2019 Q4, a decrease of \$149.3 million or 21.4%. Cost of sales increased as a percentage of revenue mainly as a result of lower production volumes absorbing more fixed overhead on a per unit basis. Cost of sales also increased as a percentage of revenue as a result of the Company incurring extraordinary, COVID-19 related costs, including a \$2.7 million lower of cost or net realizable value adjustment on ADL motor coach inventory. The cost of sales increase as a percentage of revenue was increased further

by non-recurring restructuring costs of \$1.0 million. The cost of sales increase as a percentage of revenue was partially offset by NFI Forward savings, and government grants of \$10.5 million, which were netted against wages in the presentation of cost of sales.

Cost of sales from Manufacturing operations in Fiscal 2020 was \$1,928.7 million (95.6% of Manufacturing operations revenue) compared to \$2,184.5 million (88.2% of Manufacturing operations revenue) in Fiscal 2019, a decrease of \$255.8 million or 11.7%. Cost of sales increased as a percentage of revenue mainly due to lower production volumes absorbing more fixed overhead on a per unit basis, primarily as a result of the Company idling production facilities for the majority of Q2 2020. Cost of sales also increased as a percentage of revenue as a result of the Company incurring expenses related to COVID-19 and restructuring activities. The cost of sales increase as a percentage of revenue was partially offset by NFI Forward savings of \$8.4 million and government grants of \$46.7 million, which were netted against wages in the presentation of cost of sales. Cost of sales as a percentage of revenue also improved as a result of improvements at the Company's parts fabrication facility.

Cost of sales from Aftermarket operations in 2020 Q4 was \$76.5 million (73.7% of Aftermarket revenue) compared to \$81.6 million (69.6% of Aftermarket revenue) in 2019 Q4, a decrease of \$5.1 million or 6.3%. Cost of sales from Aftermarket operations in Fiscal 2020 was \$291.3 million (72.6% of Aftermarket revenue) compared to \$295.5 million (70.8% of Aftermarket revenue) in Fiscal 2019, a decrease of \$4.2 million or 1.4%. Cost of sales as a percentage of revenue was higher year-over-year as the Company had lower sales volumes to cover depreciation and amortization expense. Cost of sales was also impacted by a COVID-19 related impairment charge of \$1.9 million in 2020 Q4.

Gross Margins

(U.S. dollars in thousands)

	2020 Q4		2019 Q4		Fiscal 2020		Fiscal 2019
Manufacturing	\$	58,943	\$	102,378	\$	89,060	\$ 291,540
Aftermarket		27,223		35,600		110,195	121,942
Total Gross Margins	\$	86,166	\$	137,978	\$	199,255	\$ 413,482
As a percentage of sales							
Manufacturing		9.7 %		12.8 %		4.4 %	11.8 %
Aftermarket		26.3 %		30.4 %		27.4 %	29.2 %
		12.1 %		15.0 %		8.2 %	14.3 %

Manufacturing gross margins for 2020 Q4 of \$58.9 million (9.7% of revenue), decreased by \$43.5 million, or 42.5%, compared to \$102.4 million (12.8% of revenue) for 2019 Q4. Manufacturing gross margins for Fiscal 2020 of \$89.1 million (4.4% of revenue), decreased by \$202.5 million, or 69.5%, compared to Fiscal 2019.

The decrease in gross margins as a percentage of revenue for both periods is mainly due to lower production volumes absorbing more fixed overhead on a per unit basis. Gross margins also decreased as a percentage of revenue as a result of the Company incurring expenses related to COVID-19 and restructuring. Gross margin decline was partially offset by NFI Forward overhead savings and government grants, which were netted against direct labor wages in the presentation of cost of sales. NFI Forward achieved gross margin improvements through direct labour headcount reductions and production facility rationalizations. The gross margin decline was also partially offset by improvements at the Company's parts fabrication facility, which achieved a relative gross margin improvement of 43.9% in 2020 Q4, compared to 2019 Q4.

Gross margins from Aftermarket operations in 2020 Q4 of \$27.2 million (26.3% of revenue) decreased by \$8.4 million, or 23.6%, compared to 2019 Q4 gross margins of \$35.6 million (30.4% of revenue). Gross margins from Aftermarket operations in Fiscal 2020 of \$110.2 million (27.4% of revenue) decreased by \$11.7 million, or 9.6%, compared to Fiscal 2019 gross margins of \$121.9 million (29.2% of revenue). Margins were lower due to lower sales volumes and a COVID-19 related impairment charge of \$1.9 million in 2020 Q4.

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

(U.S. dollars in thousands)

	2020 Q4		2019 Q4		Fiscal 2020		Fiscal 2019
Selling expenses	\$	12,327	\$	7,052	\$	28,579	\$ 23,739
General and administrative expenses		41,791		62,055		193,868	205,270
Other costs		1,434		(528)		8,856	12,445
Total SG&A	\$	55,552	\$	68,579	\$	231,303	\$ 241,454

The consolidated SG&A for 2020 Q4 of \$55.6 million (7.8% of consolidated revenue) decreased by \$13.0 million, or 19.0%, compared to \$68.6 million (7.5% of consolidated revenue) in 2019 Q4. The consolidated SG&A for Fiscal 2020 of \$231.3 (9.6% of consolidated revenue) decreased by \$10.2 million, or 4.2%, compared to \$241.5 million (8.3% of consolidated revenue) in Fiscal 2019.

The decrease in 2020 Q4 is related to NFI Forward savings and government grants, which were netted against expenses in the presentation of SG&A. The quarterly decline was offset by extraordinary COVID-19 related costs and one-time, non-recurring restructuring costs related to NFI Forward. The year-over-year decrease was due to NFI Forward savings of \$8.6 million and government grants of \$6.8 million. The year-over-year decrease was partially offset by non-recurring restructuring costs, extraordinary COVID-19 costs, and the acquisition of ADL.

Realized foreign exchange loss/gain

During 2020 Q4, the Company recorded a realized foreign exchange gain of \$1.9 million compared to a gain of \$0.6 million in 2019 Q4.

During Fiscal 2020, the Company recorded a realized foreign exchange gain of \$1.5 million compared to a gain of \$1.0 million in Fiscal 2019.

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

Earnings (loss) from operations

Consolidated earnings from operations in 2020 Q4 were \$32.5 million (4.6% of consolidated revenue) compared to earnings of \$70.0 million (7.6% of consolidated revenue) in 2019 Q4, a decrease of \$37.5 million or 53.6%. Consolidated losses from operations in Fiscal 2020 were \$81.3 million (-3.4% of consolidated revenue) compared to earnings of \$173.1 million (6.0% of consolidated revenue) in Fiscal 2019, a decrease of \$254.4 million or 147.0%.

2020 Q4 Earnings from operations related to Manufacturing operations were \$23.1 million (3.8% of Manufacturing revenue) compared to earnings of \$56.5 million (7.1% of Manufacturing revenue) in 2019 Q4, a decrease of \$33.4 million or 59.1%. Losses from operations related to Manufacturing operations in Fiscal 2020 were \$125.1 million (-6.2% of Manufacturing revenue) compared to earnings of \$112.7 million (4.6% of Manufacturing revenue) in Fiscal 2019, a decrease of \$237.8 million or 211.0%. The decrease in 2020 Q4 as a percentage of revenues is primarily due to lower production volumes, exceptional COVID-19 costs of \$3.5 million and non-recurring restructuring costs of \$1.0 million, partially offset by government grants of \$11.3 million. The decrease in Fiscal 2020 as a percentage of revenue is also due to lower volumes, exceptional COVID-19 costs of \$44.9 million, non-recurring restructuring costs of \$27.4 million and a goodwill impairment charge of \$50.8 million. The year-over-year decrease was offset by government grants of \$53.5 million, NFI Forward savings of \$17.0 million and improvements at KMG.

Earnings from operations related to Aftermarket operations in 2020 Q4 were \$12.4 million (12.0% of Aftermarket revenue) compared to \$15.5 million (13.3% of Aftermarket revenue) in 2019 Q4, a decrease of \$3.1 million or 20.0%. Earnings from operations related to Aftermarket operations in Fiscal 2020 were \$53.6 million (13.4% of Aftermarket revenue) compared to \$64.0 million (15.3% of Aftermarket revenue) in Fiscal 2019, a decrease of \$10.4 million or 16.3%. The 2020 Q4 decrease as a percentage of revenue is a result of lower sales volumes and a COVID-19 related impairment charge of \$1.9 million. The decrease as a percentage of revenue for Fiscal 2020 is also a result of lower sales volumes and COVID-19 related costs.

Unrealized foreign exchange gain/loss

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

(U.S. dollars in thousands)				
	2020 Q4	2019 Q4	Fiscal 2020	Fiscal 2019
Unrealized (gain) loss on forward foreign exchanges contracts	\$ (1,377)	\$ (1,475)	\$ (8,272)	\$ (1,797)
Unrealized (gain) loss on other long-term monetary assets/liabilities	(1,860)	(165)	(778)	1,857
	\$ (3,237)	\$ (1,640)	\$ (9,050)	\$ 60

At December 27, 2020, the Company had \$85.0 million of foreign exchange forward contracts to buy currencies in which the Company operates (U.S. dollars, Canadian dollars, or GBP). The related asset of \$4.5 million (December 29, 2019: \$3.7 million) is recorded on the audited consolidated statements of financial position as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the audited consolidated statements of net earnings (loss) and total comprehensive income (loss).

Earnings (loss) before interest and income taxes ("EBIT")

In 2020 Q4, the Company recorded EBIT of \$36.0 million compared to EBIT of \$71.5 million in 2019 Q4. In Fiscal 2020, the Company recorded an EBIT loss of \$72.2 million compared to EBIT of \$173.1 million in Fiscal 2019. EBIT has been impacted by non-cash and non-recurring items as follows:

(U.S. dollars in thousands)

	2020 Q4	2019 Q4	Fiscal 2020	Fiscal 2019
Non-cash and non-recurring charges:				
Costs (recoveries) associated with assessing strategic and corporate initiatives	\$ 165	\$ (616)	\$ 1,396	\$ 13,069
Unrealized foreign exchange (gain) loss	(3,237)	(1,640)	(9,050)	60
Equity settled stock-based compensation	608	437	1,770	1,566
Loss (gain) on disposition of property, plant and equipment	(257)	52	(56)	(46)
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue	—	2,156	—	31,004
Fair value adjustment of total return swap	(1,584)	273	118	949
Past service costs recovery	7	—	(408)	—
Recovery on currency transactions	—	—	—	(4,287)
Extraordinary COVID-19	5,413	—	47,362	—
Prior year sales tax provision	37	300	184	4,094
Impairment loss on goodwill	—	—	50,790	—
Portion of the total return swap realized	641	(203)	(525)	(626)
Non-recurring restructuring costs	1,014	—	27,541	—
Amortization	26,126	31,135	110,784	104,570
Total non-cash and non-recurring charges:	\$ 28,933	\$ 31,894	\$ 229,906	\$ 150,353

Interest and finance costs

The interest and finance costs for 2020 Q4 of \$14.6 million increased by \$3.3 million when compared 2019 Q4. The increase is primarily due to carrying costs associated with the Sidecar and interest costs incurred on the new UK Facility. The Sidecar was entered in April 2020, to provide additional liquidity, if required, during the temporary idling of production facilities due to COVID-19. The Sidecar was not used and was terminated in December 2020. The UK Facility was entered in May 2020, to support ADL's operations in the UK. Interest and finance costs were also higher due to a fair market value gain on interest rate swap of \$3.3 million in 2020 Q4 compared to a gain of \$4.5 million in 2019 Q4.

The interest and finance costs for Fiscal 2020 of \$83.9 million increased by \$10.5 million when compared to Fiscal 2019. The increase is primarily due to increased interest on long-term debt of \$9.6 million due to higher average Credit Facility draws for the acquisition of ADL and to finance fixed operating expenses during the temporary idling of production facilities due to COVID-19. The increase is also due to carrying costs associated with the Sidecar and interest on the new UK Facility. The increase was partially offset by a fair market value loss on interest rate swap of \$17.7 million in Fiscal 2020, compared to a loss of \$22.0 million in Fiscal 2019.

The losses on the interest rate swap relate to risk management activities management has undertaken to reduce the uncertainty related to the Company's cost of borrowing. The interest rate swap fixes the interest rate which the Company will pay on \$600.0 million of its long-term debt at 2.27% plus an applicable margin. The fixed portion amortizes \$20 million annually and matures in October 2023. The Company has a second interest rate swap on \$200 million of its long-term debt on which the Company will pay 0.243% plus an applicable margin and matures in July 2025. The Company's accounting policy is to not designate these types of instruments as accounting hedges. As a result, interest rate increases will result in mark-to-market gains, while interest rate decreases will result in mark-to-market losses.

Earnings (loss) before income taxes ("EBT")

EBT for 2020 Q4 of \$21.5 million decreased by \$38.7 million compared to EBT of \$60.2 million in 2019 Q4. EBT for Fiscal 2020 of \$156.1 million loss decreased by \$255.8 compared to EBT of \$99.7 million in Fiscal 2019. 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 2020 Q4 was \$13.0 million, compared to \$26.1 million expense in 2019 Q4. The ETR for 2020 Q4 was 60.5% and the ETR for 2019 Q4 was 43.4%. The reduction in the overall income tax expense is primarily due to lower earnings before taxes. The ETR is negatively impacted by the base erosion and anti-abuse tax ("BEAT") and a write-off of unapplied foreign tax credits.

The income tax for Fiscal 2020 was \$1.6 million compared to \$42.0 million expense in Fiscal 2019. The ETR for Fiscal 2020 was negative 1.1% and the ETR for Fiscal 2019 was 42.1%. The reduction in the overall income tax expense is primarily due to lower earnings before taxes. The ETR is negatively impacted by the Company incurring non-deductible interest, revaluing UK deferred tax liabilities as a result of a reversal of a previously enacted rate reduction, the non-deductible goodwill impairment charge in 2020 Q1, BEAT and a write-off of unapplied foreign tax credits.

Net earnings (loss)

The Company reported net earnings of \$8.5 million in 2020 Q4, a decrease of 75.1% compared to net earnings of \$34.1 million in 2019 Q4. The Company reported a net loss of \$157.7 million in Fiscal 2020, a decrease of 373.3% compared to net earnings of \$57.7 million in Fiscal 2019. The decrease in net earnings is due to lower production volumes, exceptional COVID-19 costs and non-recurring restructuring costs associated with production reductions and the NFI Forward initiative. The decrease was partially offset by government grants and NFI Forward savings. The Fiscal 2020 results were also lower as a result of a \$50.8 million goodwill impairment charge related to private motor coach operations, incurred in the first quarter.

Net earnings (loss) (U.S. dollars in millions, except per Share figures)	2020 Q4		2019 Q4		Fiscal 2020		Fiscal 2019	
Earnings (loss) from operations	\$	32.5	\$	70.0	\$	(81.3)	\$	173.1
Non-cash gain		3.6		1.5		9.1		—
Interest expense		(14.6)		(11.3)		(83.9)		(73.4)
Income tax expense		(13.0)		(26.1)		(1.6)		(42.0)
Net earnings (loss)	\$	8.5	\$	34.1	\$	(157.7)	\$	57.7
Net earnings (loss) per Share (basic)	\$	0.14	\$	0.55	\$	(2.52)	\$	0.93
Net earnings (loss) per Share (fully diluted)	\$	0.14	\$	0.55	\$	(2.52)	\$	0.93

The Company's net earnings per Share in 2020 Q4 of \$0.14 decreased from net earnings per Share of \$0.55 in 2019 Q4. The Company's net loss per Share in Fiscal 2020 of \$2.52 decreased from net earnings per Share of \$0.93 generated in Fiscal 2019. Net earnings per Share were lower in 2020 Q4 and Fiscal 2020 due to lower production volumes, exceptional COVID-19 related costs, non-recurring restructuring costs and goodwill impairment charges. The decrease was partially offset by government grants and NFI Forward savings.

Cash Flow

The cash flows of the Company are summarized as follows:

(U.S. dollars in thousands)								
	2020 Q4		2019 Q4		Fiscal 2020		Fiscal 2019	
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	\$	57,951	\$	101,054	\$	87,299	\$	277,775
Interest paid		(15,913)		(15,447)		(63,307)		(47,676)
Income taxes paid		(4,124)		(7,228)		(26,693)		(40,167)
Net cash earnings (loss)		37,914		78,379		(2,701)		189,932
Cash flow generated by (used in) changes in working capital		50,191		70,891		68,762		(91,324)
Cash flow generated by operating activities		88,105		149,270		66,061		98,608
Cash flow from (used in) financing activities		(27,997)		(145,175)		(37)		298,011
Cash flow used in investing activities		(7,217)		(6,979)		(38,477)		(379,289)

Cash flows from operating activities

The 2020 Q4 net operating cash flow of \$88.1 million is comprised of \$37.9 million of net cash earnings and \$50.2 million of cash generated by changes in working capital. The 2019 Q4 net operating cash flow of \$149.3 million is comprised of \$78.4 million of net cash earnings and \$70.9 million of cash generated by changes in working capital.

The Fiscal 2020 net operating cash flow of \$66.1 million is comprised of \$2.7 million of net cash losses, offset by \$68.8 million of cash generated by changes in working capital. The Fiscal 2019 net operating cash flow of \$98.6 million is comprised of \$189.9 million of net cash earnings, offset by working capital investment of \$91.3 million.

Cash flow from financing activities

The cash outflow of \$28.0 million during 2020 Q4 is comprised mainly of short-term debt repayments of \$10.0 million, dividend payments of \$9.9 million, and lease obligation payments of \$7.8 million, offset by proceeds from long-term debt of \$3.7 million. Lease obligation payments were higher as the Company made payments, related to previous quarters, that had been deferred to preserve cash during the idling of production facilities.

The cash inflow of \$0.0 million during Fiscal 2020 is comprised mainly of proceeds from long-term debt of \$72.1 million, offset by lease obligation payments of \$18.9 million, dividends paid on shares of \$49.4 million and debt issue costs of \$3.9 million.

Cash flow from investing activities

(U.S. dollars in thousands)

	2020 Q4	2019 Q4	Fiscal 2020	Fiscal 2019
Acquisition of intangible assets	\$ (29)	\$ (11)	\$ (29)	\$ (38)
Proceeds from disposition of property, plant and equipment	2,259	—	2,765	174
Long-term restricted deposits	—	—	(15,510)	(14,490)
Net cash used in acquisitions	—	—	—	(327,360)
Acquisition of property, plant and equipment	(9,447)	(6,968)	(25,703)	(37,575)
Cash from investing activities	\$ (7,217)	\$ (6,979)	\$ (38,477)	\$ (379,289)

Investing activities were higher in 2020 Q4, as the Company increased maintenance capital expenditures, after reducing expenditures during the second and third quarters to preserve cash during the pandemic. Yearly outflows from investing activities were lower as a result of the acquisition of ADL in 2019 Q2, as well as lower maintenance capital expenditures to preserve cash during the pandemic.

On January 20, 2016, the Company entered into a \$482.0 million interest rate swap designed to hedge floating rate exposure on the \$482.0 million Term Credit Facility under the Company's then current fifth amended and restated prior credit agreement. The interest rate swap fixed the interest rate at 1.154% plus the applicable interest margin. On February 13, 2019, the Company blended the unrealized gain from the then current swap into a \$600.0 million notional interest rate swap designed to hedge floating rate exposure on the Company's current Credit Facility. The interest rate swap fixes the interest rate at 2.27% plus applicable margin until October 2023 and amortizes at a rate of \$20 million per annum.

On July 9, 2020 the Company entered into \$200 million amortizing notional interest rate swap designed to hedge floating rate exposure on its Credit Facility. The interest rate swap fixes the interest rate at 0.243% plus applicable margin until July 2025. The swap begins amortizing on December 9, 2022 at a rate of \$20 million per annum.

The fair value of the interest rate swap liability of \$33.1 million at December 27, 2020 (2019: \$15.4 million liability) was recorded on the audited consolidated statements of financial position as a derivative financial instruments liability and the change in fair value has been recorded as finance costs for the reported period. The unrealized losses recorded on the instrument are a result of interest rate reductions subsequent to entering into the transaction.

Credit risk

Financial instruments which potentially subject the Company to credit risk and concentrations of credit risk consist principally of cash, accounts receivable and derivatives. Management believes 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. Management does not anticipate significant credit risk due to the COVID-19 pandemic.

The purchase of new coaches, transit buses or cutaways by private fleet operators is paid from the operators' own capital budgets and funded by their 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 program. The Company has experienced a nominal amount of bad debts with its private sales customers as most transactions require payment on delivery. Management does not anticipate significant credit risk due to the COVID-19 pandemic.

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 consolidated statements of net earnings (loss) and total comprehensive income (loss).

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

U.S. dollars in thousands	December 27, 2020	December 29, 2019
Current, including holdbacks	\$ 380,328	\$ 482,476
<u>Past due amounts but not impaired</u>		
1 - 60 days	39,988	37,413
Greater than 60 days	7,081	6,800
Less: allowance for doubtful accounts	(989)	(284)
Total accounts receivables, net	\$ 426,408	\$ 526,405

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

Commitments and Contractual Obligations

The following table describes the Company's maturity analysis of the undiscounted cash flows of leases and accrued benefit liabilities as at December 27, 2020:

U.S. dollars in thousands	Total	2021	2022	203	2024	2025	Post 2025
Leases	194,376	22,204	21,040	18,498	13,571	10,083	108,980
Accrued benefit liability	2,911	2,911	—	—	—	—	—
	\$ 197,287	\$ 25,115	\$ 21,040	\$ 18,498	\$ 13,571	\$ 10,083	\$ 108,980

As at December 27, 2020, outstanding surety bonds guaranteed by the Company amounted to \$357.2 million, representing a decrease compared to \$384.5 million at December 29, 2019. The estimated maturity dates of the surety bonds outstanding at December 27, 2020 range from January 2021 to December 2026. Management believes that adequate facilities exist to meet projected surety requirements.

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

Under the Credit Facility, the Company had established a letter of credit sub-facility of \$100.0 million. As at December 27, 2020, letters of credit amounting to \$11.8 million (December 29, 2019: \$12.8 million) remained outstanding as security for the contractual obligations of the Company under the Credit Facility.

The Company has an additional bi-lateral credit facility of £50.0 million. As at December 27, 2020, letters of credit totaling \$22.1 million were outstanding under the bi-lateral credit facility. Additionally, there are \$30.0 million of letters of credit outstanding outside of the Credit Facility and the bi-lateral credit facility.

The Company does not have any off-balance sheet arrangement or any material capital asset commitments at December 27, 2020.

Share Option Plan

The Board adopted a Share Option Plan (the "2013 Option Plan") for NFI on March 21, 2013, under which employees of NFI and certain of its affiliates may receive grants of options for Shares. The 2013 Option Plan was amended and restated on December 8, 2015, December 31, 2018 and August 5, 2020. Directors who are not employed with NFI are not eligible to participate in the 2013 Option Plan. A maximum of 3,600,000 Shares are reserved for issuance under the 2013 Option Plan. The options become vested as to one-quarter on the first grant date anniversary and an additional one-quarter on the second, third and fourth anniversary of the grant date.

Option Grant dates	Number	Exercised	Expired	Vested	Unvested	Expiry date	Exercise price	Fair Value at grant date
March 26, 2013	490,356	(483,030)	—	(7,326)	—	March 26, 2021	C\$10.20	C\$1.55
December 30, 2013	612,050	(573,668)	(9,631)	(28,751)	—	December 30, 2021	C\$10.57	C\$1.44
December 28, 2014	499,984	(252,233)	(11,368)	(236,383)	—	December 28, 2022	C\$13.45	C\$1.83
December 28, 2015	221,888	(19,532)	—	(202,356)	—	December 28, 2023	C\$26.75	C\$4.21
September 8, 2016	2,171	—	(2,171)	—	—	September 8, 2024	C\$42.83	C\$8.06
January 3, 2017	151,419	(1,610)	(12,534)	(102,557)	34,718	January 3, 2025	C\$40.84	C\$7.74
January 2, 2018	152,883	—	(10,750)	(71,071)	71,062	January 2, 2026	C\$54.00	C\$9.53
January 2, 2019	284,674	—	(25,314)	(64,844)	194,516	January 2, 2027	C\$33.43	C\$5.01
July 15, 2019	2,835	—	—	(709)	2,126	July 15, 2027	C\$35.98	C\$4.90
December 31, 2019	519,916	—	(33,218)	—	486,698	December 31, 2027	C\$26.81	C\$3.36
	2,938,176	(1,330,073)	(104,986)	(713,997)	789,120		C\$29.32	

The Board adopted a new share option plan on March 12, 2020 (the "2020 Option Plan"), which was approved by shareholders on May 7, 2020, and amended on August 5, 2020, under which employees of NFI and certain of its affiliates may receive grants of options for Shares. Directors who are not employed with NFI are not eligible to participate in the 2020 Option Plan. A maximum of 3,200,000 Shares are reserved for issuance under the 2020 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. No options have been issued under the 2020 Option Plan.

The following reconciles the Share options outstanding:

	Fiscal 2020		Fiscal 2019	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance at beginning of period	1,068,906	C\$30.77	946,306	C\$27.02
Granted during the period	519,916	C\$26.81	287,559	C\$33.46
Expired during the period	(77,059)	C\$34.26	(6,928)	C\$40.75
Exercised during the period	(8,646)	C\$13.45	(158,031)	C\$12.77
Balance at end of period	1,503,117	C\$29.32	1,068,906	C\$30.77

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 did not issue any director restricted Share units ("Director RSUs") in 2020 Q4.

Critical accounting estimates and judgments

The Company's critical accounting estimates and judgments can be found within note 2 to the 2020 Annual Financial Statements.

New and amended standards adopted by the Company

IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance ("IAS 20")

The Company recognizes government grants when there is reasonable assurance that it will comply with the conditions attached to them and that the grants will be received. Government grants are recognized in the consolidated statement of net earnings (loss) and total comprehensive income (loss) over the periods in which the Company recognizes and expenses the related costs for which the grants are intended to compensate. Grants related to income are deducted in reporting the related expense.

Capital Allocation Policy

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

Maintaining Financial Flexibility

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

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

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

On December 23, 2020, the Company amended its credit facilities, including the Company's existing \$1.25 billion Credit Facility and its £50 million UK Facility. The amended facilities provide NFI with relaxed covenants as it recovers from the impacts of the COVID-19 pandemic. In addition to amending the facilities, NFI terminated the unused \$250 million Sidecar facility, which was intended to provide additional liquidity in 2020, which the Company believes it no longer requires.

Under the terms of the amended facilities, the total leverage and interest coverage ratios for 2021 and 2022 have been relaxed. During 2021, the Company has received a waiver of the total net leverage covenant and will instead need to comply with a total net leverage ratio that is based on a conservative financial projection for the Company's 2021 fiscal year.

Beginning in 2022, the Company will be required to maintain a total net leverage ratio at follows:

January 3, 2022 - April 3, 2022	<5.00
April 4, 2022 - July 3, 2022	<4.50
July 4, 2022 - October 2, 2022	<4.25
October 3, 2022 and thereafter	<3.75

The Company will also have to comply with a \$50 million minimum liquidity covenant at all times until the total net leverage covenant is less than 3.75x, a total net debt to capitalization ratio of less than 0.70:1.00 during 2021, and an interest coverage ratio of at least 2.25x during 2021 and 3.00x beginning in the first quarter 2022. The amended facilities require the dividend payment not exceed the current level.

Adjusted EBITDA is calculated on a rolling last twelve-month basis, provided that for those calculations required on April 4, 2021, the rolling period is calculated as Adjusted EBITDA for the three Fiscal Quarters ending April 4, 2021, December 27, 2020 and September 27, 2020 multiplied by 4/3.

Management believes the Company's cash position, anticipated future revenues, liquidity from credit facilities together with access to equity markets and other borrowings capacity are sufficient to support current operations, dividends and strategic initiatives.

Subsequent to quarter- and year-end, on March 1, 2021 NFI announced that it had closed a bought-deal equity offering (the "Offering") with a syndicate of underwriters (the "Underwriters") pursuant to which NFI issued 8,446,000 common shares at a price of C\$29.60 per share for gross proceeds to the Company of C\$250 million. The Company intends to use the net proceeds of the Offering to reduce the outstanding balances under its credit facilities, which is expected to strengthen NFI's balance sheet, reduce leverage and interest expense and significantly increase liquidity.

NFI believes that its existing liquidity combined with the additional financial flexibility provided from the Offering will allow it to pursue its operational and strategic goals, such as investments in NFI's zero-emission products and electric propulsion technology, investments required under the previously disclosed NFI Forward cost-reduction initiative and other potential growth opportunities, in addition to continuing to return capital to shareholders through dividends.

The calculation of the financial covenants for Fiscal 2020 are provided for information purposes below:

	December 27, 2020	December 29, 2019
Total Leverage Ratio (must be less than 6.25 [2019: 4.25])	4.90	3.24
Interest Coverage Ratio (must be greater than 3.00 [2019: 3.00])	4.11	7.73

US dollars in thousands	December 27, 2020
Liquidity Position (must be greater than \$50 million)	\$ 233,459

The Company remains focused on deleveraging its balance sheet and returning to its target leverage of 2.0x to 2.5x total debt to EBITDA. Management had originally expected the Company to return to those levels 18 to 24 months following the acquisition of ADL in May 2019, but the impact of COVID-19 has extended the expected timing of deleveraging. The Company has executed upon a variety of initiatives focused on lowering cash outflows to help mitigate the impacts of COVID-19 including:

- Permanent workforce reductions across NFI Group, generating savings of \$17 million in fiscal 2020;

- A reduction in planned 2020 cash capital expenditures from \$45 million to \$25 million;
- The 50% reduction in the Company's quarterly dividend in 2020 Q1; and
- Reducing working capital

Management expects to reduce the Company's total leverage over time as the recovery from COVID-19 continues, and the Company achieves the benefits of the NFI Forward strategic cost reduction initiatives.

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

Business Investment

The Company plans to invest in the current business for future growth and will continue to invest in common systems and lean manufacturing operations to improve quality and cost effectiveness, and to continue to invest in ZEB, Infrastructure Solutions and Advanced Driver Assistance Systems ("ADAS") and automated vehicles. The Company has made significant investments in its ZEB production capabilities to be prepared for the expected longer-term transition to a more electrified fleet. New Flyer now has the capability to manufacture ZEBs at all of its North American facilities. ADL is the market leader in ZEBs with production capabilities at all of its UK facilities, MCI has invested in model upgrades to generate its first electric coach offering, which has been well received by the market and ARBOC is commencing production of its medium-duty Equest CHARGE electric bus in the second quarter of 2021, subject to completion of Altoona testing. To support customers making the transition to zero-emission fleets, New Flyer launched an Infrastructure Solutions business in 2019 that has helped numerous agencies develop and launch infrastructure installation projects.

The Company has a number of autonomous bus projects in development with specialized partners who have a deep understanding of artificial intelligence and ADAS. As part of this program to advance automated and ADAS, subsequent to quarter-end, on January 29, 2021, NFI announced the launch of the New Flyer Xcelsior AV, North America's first automated transit bus. ARBOC's zero-emission battery electric bus, the Equest CHARGE™, will begin production in the second half of 2021, following completion of Altoona testing. The Company has also made numerous investments into telematics solutions to ensure customers can track detailed performance and maintenance metrics associated with their vehicles.

In addition to internal investments, 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 2020 Q4 Free Cash Flow was C\$39.6 million compared to declared dividends of C\$13.3 million during this period. For 2019 Q4 Free Cash Flow was C\$64.1 million compared to declared dividends of C\$26.6 million. This resulted in a payout ratio of 33.6% in 2020 Q4 compared to 41.5% in 2019 Q4.

To support cash management efforts while the Company's operations are impacted by COVID-19, in 2020 Q1 the Board reduced the Company's quarterly dividend to C\$0.2125 per Share. While the dividend payment was reduced, the continued payment reflects the Board's confidence in the Company's business while maintaining the financial flexibility required to operate during a period of significant economic uncertainty.

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

On June 12, 2019 the Company announced that the TSX had accepted a notice filed by the Company of its intention to implement a Normal Course Issuer Bid to replace the Former NCIB to repurchase its Shares (the "Second NCIB"). The Company was permitted to repurchase for cancellation up to 5,357,914 Shares, representing approximately 10% of the outstanding public float of Shares on June 4, 2019. The Company was permitted to repurchase Shares commencing on June 17, 2019 up to June 16, 2020, or earlier should the Company complete its repurchases prior to such date.

During 2019 Q1, the Company repurchased 232,100 Shares under the Former NCIB at an average price of C\$31.82 per Share for a total repurchase of C\$7.4 million. The Company canceled 986,075 Shares during 2019 Q1, including 232,100 Shares purchased in 2019 Q1 and 753,975 Shares that were purchased in 2018 Q4. There were no shares purchased or canceled under the Former NCIB or the Second NCIB

subsequent to 2019 Q2. The Second NCIB expired on June 16, 2020. The Company did not file for another normal course issuer bid to replace the expired Second NCIB.

Total Capital Distributions to Shareholders (U.S. dollars in millions)				
	2020 Q4	2019 Q4	Fiscal 2020	Fiscal 2019
Dividends paid	\$ 9.9	\$ 20.0	\$ 49.4	\$76.4
NCIB Share repurchase	—	—	—	5.7
Total	\$ 9.9	\$ 20.0	\$ 49.4	\$ 82.1

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 27, 2020 in accordance with the criteria established in COSO 2013, and concluded that the Company’s ICFR are effective.

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.

There have been no changes in our internal control over financial reporting during the quarter ended December 27, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 27, 2020 were effective.

Appendix A - Meaning of Certain References

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

The common shares of NFI (“Shares”) are traded on the Toronto Stock Exchange (“TSX”) under the symbol “NFI”. As at December 27, 2020, 62,524,842 Shares were issued and outstanding. Additional information about NFI and the Company, including NFI’s annual information form, is available on SEDAR at www.sedar.com.

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

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

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

Forward-Looking Statements

This MD&A contains “forward-looking information” and “forward-looking statements”, within the meaning of applicable Canadian securities laws, which reflect the expectations of management regarding the Company’s future growth, financial performance and financial position and the Company’s strategic initiatives, plans, business prospects and opportunities, including the duration, impact of and recovery from the COVID-19 pandemic. The words “believes”, “views”, “anticipates”, “plans”, “expects”, “intends”, “projects”, “forecasts”, “estimates”, “guidance” and “targets”, “may”, “will” and similar expressions are intended to identify forward looking statements. These forward-looking statements reflect management’s current expectations regarding future events (including the recovery of the Company’s markets and the expected benefits to be obtained through its “NFI Forward” initiative) and the Company’s financial and operating performance and speak only as of the date of this MD&A. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future events, 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 that may cause actual results to differ materially from the results discussed in the forward-looking statements include: the anticipated use of proceeds of the Offering; the Company may not be able to achieve its targets for sales growth; 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 could have an adverse effect on the 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; 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 U.S. Disadvantaged Business Enterprise (“DBE”) program requirements or the failure to have its DBE goals approved by the U.S. Federal Transit Administration; absence of fixed term customer contracts, exercise of options and customer suspension or termination for convenience; local content bidding preferences in the United States may create a competitive disadvantage; uncertainty resulting from the exit of the UK from the European Union; requirements under Canadian content policies may change and/or become more onerous; operational risk resulting from inadequate or failed internal processes, people and/or systems or from

external events, including fiduciary breaches, regulatory compliance failures, legal disputes, business disruption, pandemics, floods, technology failures, processing errors, business integration, damage to physical assets, employee safety and insurance coverage; international operations subject the Company to additional risks and costs and may cause profitability to decline; compliance with international trade regulations, tariffs and duties; dependence on limited sources or unique sources of supply; a disruption of the supply of components containing microprocessors and other computer chips could materially adversely affect the production and sale of the Company's vehicles and certain other products; 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; 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 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, no matter how well designed, have inherent limitations; 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; ability to successfully execute strategic plans and maintain profitability; development of competitive or disruptive products, services or technology; development and testing of new products or model variants; acquisition risk; reliance on third party manufacturers; 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 restrictive covenants in the credit facilities could impact the Company's business and affect its ability to pursue its business strategies; payment of dividends is not guaranteed; a significant amount of the Company's cash is distributed, which may restrict potential growth; the Company 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 due to the Company's operations being complex and income tax interpretations, regulations and legislation that pertain to its activities are subject to continual change; investment eligibility and Canadian federal income tax risks; certain U.S. tax rules may limit the ability of New Flyer Holdings, Inc. 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 and certain financing transactions could be characterized as "hybrid transactions" for U.S. tax purposes, which could increase the NF Group's tax liability.

Factors relating to the global COVID-19 pandemic include: the magnitude and duration of the global, national and regional economic and social disruption being caused as a result of the pandemic; the impact of national, regional and local governmental laws, regulations and "shelter in place" or similar orders relating to the pandemic which may materially adversely impact the Company's ability to continue operations; partial or complete closures of one, more or all of the Company's facilities and work locations or the reduction of production rates (including due to government mandates and to protect the health and safety of the Company's employees or as a result of employees being unable to come to work due to COVID-19 infections with respect to them or their family members); production rates may be further decreased as a result of the pandemic; supply delays and shortages of parts and components and disruption to labour supply as a result of the pandemic; the pandemic will likely adversely affect operations of customers and reduce and delay, for an unknown period, customers' purchases of the Company's products; the anticipated recovery of the Company's markets in the future may be delayed or increase in demand may be lower than expected as a result of the continuing effects of the pandemic; the Company's ability to obtain access to additional capital if required; and the Company's financial performance and condition, obligations, cash flow and liquidity and its ability to maintain compliance with the covenants under its credit facilities, which may also negatively impact the ability of the Company to pay dividends. There can be no assurance that the Company will be able to maintain sufficient liquidity for an extended period, obtain future satisfactory covenant relief under its credit facilities, if required, or access to additional capital or access to government financial support or as to when production operations will return to previous production rates. There is also no assurance that governments will provide continued or adequate stimulus funding during or after the pandemic for public transit agencies to purchase transit vehicles or that public or private demand for the Company's vehicles will return to pre-pandemic levels in the anticipated period of time. The Company cautions that due to the dynamic, fluid and highly unpredictable nature of the pandemic and its impact on global and local

economies, businesses and individuals, it is impossible to predict the severity of the impact on the Company's business, operating performance, financial condition and ability to generate sufficient cash flow and maintain adequate liquidity and any material adverse effects could very well be rapid, unexpected and may continue for an extended and unknown period of time.

Factors relating to the Company's "NFI Forward" initiative include: the Company's ability to successfully execute the initiative and to generate the planned savings in the expected time frame or at all; management may have overestimated the amount of savings and production efficiencies that can be generated or may have underestimated the amount of costs to be expended; the implementation of the initiative may take longer than planned to achieve the expected savings; further restructuring and cost-cutting may be required in order to achieve the objectives of the initiative; the estimated amount of savings generated under the initiative may not be sufficient to achieve the planned benefits; combining business units and/or reducing the number of production or parts facilities may not achieve the efficiencies anticipated; and the impact of the continuing global COVID-19 pandemic. There can be no assurance that the Company will be able to achieve the anticipated financial and operational benefits, cost savings or other benefits of the initiative.

Factors relating to the Company's January 11, 2021 financial guidance (the "Guidance") include the degree to which actual future events accord with, or vary from, the expectations of, and assumptions used by, NFI's management in preparing the Guidance and the Company's ability to successfully execute the "NFI Forward" initiative and to generate the planned savings in the expected time frame or at all. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in the Guidance, there may be other factors that could cause actions, events or results not to be as anticipated, estimated or intended. Specific reference is made to "Risk Factors" in the Annual Information Form ("AIF") for a discussion of the factors that may affect forward-looking statements and information. Should one or more of these risks or uncertainties materialize, or should any of the underlying assumptions used by the Company in preparing any of the forward-looking statements and information contained in the Guidance prove incorrect, NFI's actual results may vary from those described in the Guidance and any such variations may be material. The forward-looking statements and information contained in the Guidance were made as of January 11, 2021 and the Company disclaims any intent or obligation to update any such forward-looking statements or information except as required by law. The Company provides no assurance that forward-looking statements and information contained in the Guidance will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on such forward-looking statements and information.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that could cause actions, events or results not to be as anticipated, estimated or intended. Specific reference is made to "Risk Factors" in the AIF for a discussion of the factors that may affect forward-looking statements and information. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements and information. The forward-looking statements and information contained herein are made as of the date of this MD&A (or as otherwise indicated) and the Company disclaims any intent or obligation to update forward-looking statements or information except as required by law. The Company provides no assurance that forward-looking statements and information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements and information.

DEFINITIONS OF ADJUSTED EBITDA, ROIC, FREE CASH FLOW, ADJUSTED NET EARNINGS (LOSS), ADJUSTED EARNINGS (LOSS) PER SHARE, REGIONS INCLUDING: NORTH AMERICA, UK AND EUROPE, ASIA PACIFIC, AND OTHER

References to "Adjusted EBITDA" are to earnings before interest, income taxes, depreciation and amortization after adjusting for the effects of certain non-recurring and/or non-operations related items that do not reflect the current ongoing cash operations of the Company. These adjustments include gains or losses on disposal of property, plant and equipment, fair value adjustment for total return swap, unrealized foreign exchange losses or gains on non-current monetary items and forward foreign exchange contracts, costs associated with assessing strategic and corporate initiatives, past service costs and other pension costs or recovery, non-recurring costs or recoveries related to business acquisition, fair value adjustment to acquired subsidiary company's inventory and deferred revenue, proportion of the total return swap realized, equity settled stock-based compensation, recovery of currency transactions, prior year sales tax provision, , COVID-19 costs and impairment loss on goodwill and non-recurring restructuring costs.

"Free Cash Flow" means net cash generated by or used in operating activities adjusted for changes in non-cash working capital items, interest paid, interest expense, income taxes paid, current income tax expense, principal portion of finance lease payments, cash capital expenditures, proceeds from disposition of property, plant and equipment, costs associated with assessing strategic and corporate initiatives, fair value adjustment to acquired subsidiary company's inventory and deferred revenue, defined benefit funding, defined benefit expense, past service costs and other pension costs or recovery, proportion of total return swap, recovery on currency transactions, prior year sales tax provision, non-recurring restructuring costs, COVID-19 costs, foreign exchange gain or loss on cash held in foreign currency.

References to "ROIC" are to net operating profit after taxes (calculated as Adjusted EBITDA less depreciation of plant and equipment, depreciation of right-of-use assets and income taxes at a rate of 31%) divided by average invested capital for the last 12-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 (Loss)" are to net earnings (loss) after adjusting for the after tax effects of certain non-recurring and/or non-operational related items that do not reflect the current ongoing cash operations of the Company including: fair value adjustments of total return swap, unrealized foreign exchange loss or gain, unrealized gain or loss on the interest rate swap, impairment loss on goodwill, portion of the total return swap realized, costs associated with assessing strategic and corporate initiatives, fair value adjustment to acquired subsidiary company's inventory and deferred revenue, equity settled stock-based compensation, gain or loss on disposal of property, plant and equipment, past service costs and other pension costs or recovery, recovery on currency transactions, prior year sales tax provision, COVID-19 costs and non-recurring restructuring costs .

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

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

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

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

2020 Appendix B - 2020 Fourth Quarter Order Activity

Demand for Transit Buses and Motor Coaches

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

The fourth quarter of 2020 saw further decline in the Company's Bid Universe, similar to the decline experienced in the third quarter, after reaching record highs in the first half of 2020. The decrease in Active Bids, which were down by 35.2%, or 2,189 EUs, from 2020 Q3 reflects the release of awards that had been delayed during the first and second quarters of 2020 due to the ongoing COVID-19 pandemic. Compared to the same period in 2019, Active Bids are down by 14.1%, or 662 EUs, primarily driven by the release of significant awards during the fourth quarter and the delay of certain procurements into the first half of 2021.

The forecasted five-year industry procurement was up 5.5%, or 1,066 EUs, quarter-over-quarter, providing early signs of recovery, but still down from record highs in the first half of 2020. These decreases in expected transit procurements are the direct result of pressures facing operators and agencies due to the COVID-19 pandemic. Most of the decline was seen in public motor coach. Management anticipates that forecasted five-year industry procurement will increase as transit agencies and operators learn more about and all are able to access the multi-billion funding programs being launched by governments in Canada and the US.

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)
2019 Q4	1,760	2,934	4,694	22,954	27,648
2020 Q1	2,005	3,461	5,466	23,770	29,236
2020 Q2	2,975	4,374	7,349	22,089	29,438
2020 Q3	1,927	4,294	6,221	19,280	25,501
2020 Q4	297	3,735	4,032	20,346	24,378

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

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

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

ADL does not currently have a Bid Universe metric for the UK and European or Asia Pacific markets similar to New Flyer and MCI's North American Bid Universe. Management does not believe a similar Bid Universe metric for those markets is suitable given that the majority of customers in those regions are private operators who make annual purchase decisions. The overall UK market declined from 2015 to 2019, and was expected to remain relatively flat in 2020 prior to the occurrence of the pandemic. The UK market was hit disproportionately hard by the COVID-19 pandemic, with bus patronage down by nearly 80% at its worst point in 2020, and overall deliveries down by 24%. We expect to see a slow recovery in 2021 due to customers' fleet recovery plans, a government focus on the green recovery, and an aging vehicle fleet. In Asia Pacific, the Hong Kong market is highly cyclical, and, following busier periods in 2015 through 2018, the market has declined as expected. As in other regions, Hong Kong was also impacted by the COVID-19 pandemic, but ADL remains the leader in double-deck buses and retains deep customer relationships in Hong Kong. Management expects the market to see stable annual deliveries and a slow recovery through 2021. New Zealand and Singapore remain cyclical markets; both markets saw increased activity in 2017, 2018 and 2019, but were also impacted by the COVID-19 pandemic, with expectations for recovery in 2021.

Order activity

New orders (firm and options) during 2020 Q4 totaled 998 EUs, a decrease of 13.9% from 2019 Q4 and an increase of 45.9% from 2020 Q3. The new firm and option orders awarded to the Company for Fiscal 2020 were 3,519 EUs, a decrease of 1.6% from Fiscal 2019. The Company was also successful at converting 171 EUs of options during 2020 Q4 to firm orders, a decrease of 79.0% from 2019 Q4 and a decrease of 29.3% from 2020 Q3. These conversions contributed to the 953 EUs of options converted to firm orders during 2020 Q4, a decline of 37.2% from 2019 Q4.

	New Orders in Quarter (Firm and Option EUs)	LTM New Orders (Firm and Option EUs)	Option Conversions in Quarter (EUs)	LTM Option Conversions (EUs)
2019 Q4	1,159	3,577	813	1,518
2020 Q1	1,346	4,014	139	1,531
2020 Q2	491	4,031	401	1,582
2020 Q3	684	3,680	242	1,595
2020 Q4	998	3,519	171	953

Options

In 2020 Q4, 120 option EUs expired, compared to 159 option EUs that expired during 2019 Q4 and 427 EUs that expired in 2020 Q3.

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

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total
A) Options Expired (EUs)	965	504	550	331	741	512	1,202					4,805
B) Options Exercised (EUs)	1,149	1,339	2,064	1,404	1,795	1,518	953					10,222
C) Current Options by year of expiry (EUs)								1,497	2,038	614	222	4,371
D) Conversion rate % = B / (A+B)	54 %	73 %	79 %	81 %	71 %	75 %	44 %					

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

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

The Company's Fiscal 2020 Book-to-Bill ratio (defined as new firm orders and exercised options divided by new deliveries) was 81.7%, a decrease of 3.5% from 85.2% for Fiscal 2019.

In addition, 247 EUs of new firm and option orders were pending from customers at the end of 2020 Q4, where approval of the award to the Company had been made by the customer's board, council, or commission, as applicable, but purchase documentation had not yet been received by the Company and therefore not yet included in the backlog.

Backlog

The Company's total backlog consists of buses sold primarily to U.S. and Canadian public customers and private operators in the UK and Europe. The majority of the backlog relates to New Flyer transit buses for public clients with some of the backlog consisting of units from MCI, ADL and ARBOC. Options for ARBOC vehicles are held by dealers, rather than the operator, and are not included as options are 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, diesel-electric hybrid, and ZEBs, which consist of trolley-electric, fuel cell-electric, and battery-electric buses represent approximately 34.5% of the total backlog. ZEBs represent approximately 5.8% of total backlog.

	2020 Q4			2020 Q3			2019 Q4		
	Firm Orders	Options	Total	Firm Orders	Options	Total	Firm Orders	Options	Total
Beginning of period	3,662	5,220	8,882	4,400	5,604	10,004	4,313	7,281	11,594
New orders	663	335	998	399	285	684	950	209	1,159
Options exercised	171	(171)	—	242	(242)	—	813	(813)	—
Shipments ⁽¹⁾	(1,230)	—	(1,230)	(1,317)	—	(1,317)	(1,844)	—	(1,844)
Cancelled/expired	(26)	(120)	(146)	(62)	(427)	(489)	(8)	(159)	(167)
End of period	3,240	5,264	8,504	3,662	5,220	8,882	4,224	6,518	10,742
Consisting of:									
Heavy-duty transit buses	2,271	4,730	7,001	2,519	4,640	7,159	3,236	5,722	8,958
Motor coaches	621	534	1,155	805	580	1,385	615	796	1,411
Cutaway and medium-duty buses	348	—	348	338	—	338	373	—	373
Total Backlog	3,240	5,264	8,504	3,662	5,220	8,882	4,224	6,518	10,742

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

At the end of 2020 Q4, the Company's total backlog (firm and options) of 8,504 EUs (valued at \$4.3 billion) has decreased compared to 8,882 EUs (valued at \$4.5 billion) at the end of 2020 Q3. The decrease was driven by deliveries in the quarter, cancellations and delays in new awards within North American and UK transit operations. The summary of the values is provided below.

	2020 Q4		2020 Q3		2019 Q4	
	Equivalent Units		Equivalent Units		Equivalent Units	
Total firm orders	\$ 1,631.5	3,240	\$ 1,788.5	3,662	\$ 1,928.8	4,224
Total options	2,706.3	5,264	2,703.1	5,220	3,245.1	6,518
Total backlog	\$ 4,337.8	8,504	\$ 4,491.6	8,882	\$ 5,173.9	10,742